

Nation's Business[®]

U.S. Chamber of Commerce Publication

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HOW TO SPARK NEW IDEAS ... And Turn Dreams Into Dollars

Test Yourself for Creativity — Page 25

■ Hiring the Right People

■ Battle Over Banking



A man with grey hair is reclining in a TWA First Class Sleeper-Seat, holding a glass of red wine. The seat is wide and comfortable, with a large window behind him. The text "AHH. IT'S LONELY AT THE TOP." is superimposed over the image.

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PHOTO: PETER GARFIELD



Some business innovators get their best ideas while on the beach.

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PHOTO: T. MICHAEL RIZZA

Marketing direct to the consumer is taking some sophisticated turns—including electronic ones.

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Frank L. Morsani, the new chairman of the U.S. Chamber, sells both imported and domestic autos and says more firms must think international.

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Planning for office space has become a matter of keeping people happy with their workplaces and surroundings, say top designers.

PHOTO: CREATIVE RESOURCES



Evaluating potential employees is a multifaceted process.

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PHOTO: MICKEY OSTERREICHER-BLACK STAR



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INTRODUCING THE NEXT STEP FORWARD — A UNIQUE

Recently, AT&T Information Systems introduced a product destined to set a new standard for business computers.

Its name: the AT&T UNIX PC Model 7300.

What places this PC so far out in front? Extraordinary power *and* exceptional ease of use *and* unsurpassed communications capabilities *and* maximum flexibility.

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No other PC even comes close.

POWER

UNIX System V is the key to the power of the AT&T UNIX PC. (See



THE AT&T UNIXTM PC

COMBINATION OF COMPUTER CAPABILITIES

box.) It allows you to process more data faster. (Not a little more data a little faster. *Lots* more data *much* faster.)

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This super power also lets you take advantage of the multi-tasking talents of UNIX System V. You can perform a number of tasks simultaneously on as many as 12 active windows.

WHY UNIX SYSTEM V ON A PC

Ease of use and power. Originally developed by AT&T Bell Laboratories for internal use, UNIX System V has earned a reputation as the operating system favored by computer pros. It offers performance features, multi-tasking capabilities, virtual memory, security, and software portability unheard of in a PC. That is, until the AT&T UNIX PC.

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board. A three-button mouse and help function.

And the User Interface—an electronic office manager that works the way you work. Using words that you use: clipboard, file cabinet, telephone, and wastebasket, for example.

The AT&T UNIX PC proves that it can be as easy as apple pie. Or the Apple[®] Macintosh[™] for that matter.

COMMUNICATIONS

When is a PC more than a PC? When it's able to integrate voice and data communications. Something the AT&T UNIX PC does far better than any of its competitors.

You'll be able to use your computer to handle interruptions without effort. And a built-in modem lets you send data over phone lines.

Not surprisingly for an AT&T product, your phone plays a starring role. Easy-to-use communications features include speed calling, call history, call timer, and call notes.

SOFTWARE

You won't have any trouble getting started on the AT&T UNIX PC. Many programs are available, all ready to meet your business needs.

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Or you can design your own programs with our Systems Programming Software. The AT&T UNIX PC is on speaking terms with the most popular programming languages: FORTRAN, C, COBOL, and BASIC.

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Good Night, Sam Bob

AN ALARMING trend has developed in recent years on Capitol Hill—alarming, that is to say, to defenders of old-fashioned punctilio in public office. It is a trend toward folksiness. More specifically, it is a trend toward nicknames.

Think back, if you will, to the days of our Founding Fathers. To their intimates, Jefferson was Tom, Madison was Jemmy, Adams was Sam, and Franklin was Ben. More recently the first Roosevelt was Teddy, and Coolidge was Cal. These diminutives served nicely across a tavern table. But formally and officially, these several dignitaries were Thomas, James, Samuel, Benjamin, Theodore and Calvin. It never would have occurred to them to have it otherwise.

These days things are very different in Washington. The trend had set in long before President Carter came to the White House in 1977, but his chummy practice gave a certain respectability to the nickname. Carter insisted that he was not James Earl; he was Jimmy. He made it stick. If you order the *Public Papers of Presidents*, you will get the papers of Jimmy Carter, nicely bound in blue and green.

Out of curiosity, I looked back at the 74th Congress that was in session 50 years ago this spring. Only two of the 96 senators had sawed off their handles—Pat Harrison of Mississippi and Tom Connally of Texas. (The former was born Byron Patton and the latter Thomas Terry.) Only 14 members of the House had what appeared to be nicknames, and nine of them, including Sam Taliaferro Rayburn of Texas, evidently were born as Joe, Fred, Sol, Sam or Nat. They never had full-dress names to begin with.

Now, behold. The official roll of the Senate, as prepared by its clerk, discloses that no fewer than 21 members have gone the folksy route. We have two Bobs—Kasten of Wisconsin and Packwood of Oregon. We have in the Senate a Bill, a Phil, a Sam, a Chuck, a Mitch and two Petes—Domenici of New Mexico and Wilson of California. We also have a Jeff, a Thad, a Jake, a Larry, a Chic and a Ted. Nobody home but us good ol' boys.

The same informality raises its backslapping hand in the House. By my count, which assuredly is not a definitive count, 117 of the 435 members have bobtailed their monickers. The clerk's official roll, as published in the *Congressional Record*, reads as jovially as a convention of used car salesmen: Hello, my name is Willie. We have 10 Jims in the lower chamber—among them the majority leader, who was born James Claude Wright, Jr. There are 12 Bills,

eight Dans and seven Bobs. We have in the House one Al, one Hal, one Hank, two Gusses and an Ike.

It is so sociable. The clerk lists members who officially are identified as Steve, Joe, Doug, Tom (five of them), Don, Gene, Rod, Dick, Ted, Tony, Larry, Ben, Sam and Newt—that's the Newt from Georgia. We have a Bart, a Ken, a Mickey, two Mikes, two Buddies and a Bud. There's a Stan, a Sid, a Pat, two Tonys and a Toby. We have a Mark and a Mac, and we have a gentleman from West Virginia with two cognomens—Nick Joe Rahall.

Think how jolly it will be in 1988, when Jack and Bob may be vying for the Republican nomination, and Bill, Sam and Chuck will be going for places on the Democratic ticket. It takes us back to the days of Abe Lincoln, Bill McKinley and Herbie Hoover.

You will surmise that I deplore the trend, and you will surmise correctly. How did we drift into this state of instant intimacy? "My name is Linda," says the telephone operator. "Your flight attendants," says the pilot, whose name is Tommy, "will be Sally, Carol, Frances and Sue." Sure enough, the stewards wear little gold badges that so identify them, and some of them are old enough to be your mother. Not long ago my wife had occasion to visit a new doctor. "Now, Marie," he began. She didn't go back.

Last names are getting to be things of the past. The guest who checks into one of Washington's posh new hotels swiftly learns that his bellman is Will. Not Will Anybody, just Will. License plates invite attention. Driving along almost any highway these days, you will meet automobiles presumably owned by LINDA, WINNIE, SUSAN, and POOH. POOH? WINNIE POOH? It is too much.

DOUTLESS there's a place in political campaigns for the palsy-walsy approach. I understand that in Oklahoma, if a fellow named Rogers runs for office, his first name is going to be Will. Every time. I've been a Jack for nearly 65 years and "Kilpo" for about 50 of those years, but that's among friends. I suppose most of us, male and female alike, have nicknames. It just seems to me that at a certain level of public life, as Paul so eloquently reminded us, there comes a time to put aside childish things. Punctilio matters.

I spent 25 years in Richmond and drove down Monument Avenue almost every day. It is an impressive avenue. But if the statues had been inscribed with the names of Tom, Jeff, Bob and Jeb, believe me, something would have been lost. MK



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into this state
of instant intimacy?

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ADDRESSING TOMORROW TODAY.

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Naked Against the World

Re: "Farm Problems: The Answer" [May].

What a bunch of bull! How do you expect the American farmer to compete in an organized world market? Most other countries of any consequence are subsidizing their farmers and dumping their surpluses abroad. The European Common Market countries want to keep their farm system intact so that they can be self-sufficient.

If we rely on an open market, all we will do is bring prices to our farmers down further, because other countries will dump their products on the market at even lower prices in order to get rid of them.

We need a worldwide agreement if we are to compete effectively.

Remember that farming is the one big source of new wealth. Without it, our whole economy will stagnate.

RAYMOND F. YOUNGERS
Mayor
Sheldon, Iowa

I started farming on my own in 1950, when I bought my first registered cattle. I voted for President Reagan twice, but his administration is sadly lacking in knowledge of agriculture. On a few farms, the management has been very good (and very lucky) and conservative, and they are getting by. But many of these farmers are worrying their heads off about making the payments on their debts.

All lending institutions are scared to death and unnecessarily hard. The Production Credit Association is putting farmers out of business that probably could make it. Some of their loan officers are quitting because of the pressure.

Too many farmers are in trouble. Agriculture has subsidized the rest of the country for at least 50 years. Where is the justice in a farmer making less than common labor in the factories?

JOE HARVEY
Donalsonville, Ga.

The statement in your article that "Graf's debt load is heavy" arose out of

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a misunderstanding. Farm income does affect our sales, our accounts receivable do get heavy, and like most businesses we have to borrow occasionally for inventory purposes. But our business is solvent.

We believe small towns will survive by working together. Thank you for your interest in this area.

BOB AND MARY GRAF
Owners
Graf's Home Furnishings
Amboy, Minn.

Swaddling clothes

"Kudos From Congress" [Small Business Report, April] suggests that members of Congress favor "protectionist measures" for some domestic industries, including clothing.

U.S. textile and apparel manufacturers are already the most protected of all business sectors, and we cannot imagine that Congress really favors the new legislation being proposed: a world cartel with a guaranteed market share for our manufacturers.

Such a concept is alien to the free enterprise system in America, would raise prices to consumers and would invite retaliation against U.S. exports, especially in agriculture.

American retailers, small and large, buy first from American textile and apparel manufacturers—up to 80 percent of our purchases. But we also need to buy from abroad to guarantee our customers variety, value and choice.

JOSEPH P. O'NEILL
Executive Vice President
American Retail Federation
Washington

The missing part

"Driving the Car of Tomorrow" [April] gave me a chuckle. It mentioned every gadget the auto manufacturers offer, except one that makes a serious difference in driving: the windshield wiper.

Having to cope with poorly designed windshield wiper blades in snow and ice can be hazardous to your health. Heaters in most cars can melt dashboards, but outside is a piece of plastic designed 70 years ago, with a rubber insert that can render the most sophisticated car inoperable when it is not doing its job.

No matter how great the innovations may be, they are no good if you cannot

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LETTERS

see where you are going. If rear windows can be electrically heated, why not front windows, as well as windshield wiper arms and blades?

EVERETT F. HEISS
Dalton, Mass.

States' wrongs

Re: "Closing the Laboratories" (James J. Kilpatrick, April).

The British statesman Edmund Burke advanced the theory that those who control the purse strings control the government. Once the British Parliament was able to take control of the British treasury away from the king, it was goodbye, royal power.

Likewise, Kilpatrick's examples of federal intrusions in the states do not involve sovereignty or political theory, but rather who controls the purse strings.

In order to preserve our dual system of government, we must control the federal government's purse strings. This may be done through the proposed constitutional amendment that would require a balanced budget. If this amendment is not adopted, it will be goodbye, states.

JOHN W. FINK
Galena, Kans.

A simple solution

Re: "Let Us Talk Before We Leap" (James J. Kilpatrick, May).

Regarding trade with Japan, is it not time for a little tit for tat? I am all for free trade. The country producing the best product at the best price deserves the business. But Japan is taking advantage of the United States.

Why don't we just say to Japan: For every dollar's worth of your sales to us, you buy a dollar's worth from us.

Maybe this answer is so simple that it can't work.

GEORGE H. HAY
Gilroy, Calif.

A boon for scavengers?

A letter in your April issue suggests that economic sanctions might hurt the South African government more than they would hurt black workers. But why would either be hurt?

If American companies are forced to disinvest, there is no reason to think that their factories will remain idle for long. The Japanese and the Western Europeans are a bit more practical about these things than American liberals are, and they would be able to buy those factories at low prices. They would be helped, and the American companies would be hurt.

GENE STACY
York, S.C.

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WASHINGTON LETTER

► **LEGISLATION DESIGNED TO STILL** massive public protest over recordkeeping requirements on business use of motor vehicles has been passed by Congress and sent to President Reagan. He has promised to sign it. Lawmakers were deluged with protests over way Internal Revenue Service proposed to implement obscure provision of 1984 law calling for "contemporaneous records" to support tax deductions for property for both business and personal use. While computers and airplanes were also affected, controversy centered on requirement for trip-by-trip accounting for use of vehicles.

► **CORRECTIVE LEGISLATION** repeals requirement for contemporaneous records and restores previous law on substantiation. This requires adequate records or sufficient corroborating evidence to support claims of business use of property. Oral evidence is acceptable, but tax returns will include questions on total mileage and business use of cars and trucks. Taxpayers will also be asked whether they have maintained written records. Changes will take effect in 1986, but questions will appear on 1985 tax forms.

► **WHILE DEALING WITH AUTO RECORDS** problem, Congress made other changes to gain additional revenue. One change reduces from \$1,000 to \$675 maximum investment tax credit for business vehicles. Other sets ceiling of \$12,800 on three-year depreciation allowed on business autos. The 1984 law set ceiling at \$16,000 on ground that vehicles costing more were "luxury cars" on which depreciation should be limited.

► **OVERWHELMING GRASS-ROOTS SUPPORT** for federal deficit reduction via spending cuts, not tax increases, shown in poll of delegates to annual meeting of U.S. Chamber of Commerce. Vote was 92 percent for expenditure reduction as ex-

clusive antideficit weapon against only 1 percent for raising taxes and 7 percent for combination of tax increases and spending cuts. Other results showed that delegates, representing companies and business organizations throughout nation, see deficit as No. 1 national concern, tax reform next.

► **MORE THAN HALF THOSE DELEGATES** said in response to poll on organized labor that public approval of unions had "decreased greatly" over past 10 years, and an additional 45 percent said it had decreased "somewhat." Asked why union membership has declined substantially, delegates cited public distrust and a leadership out of step with rank-and-file.

► **TAX FOUNDATION** provides solid reason for sentiment against tax increases by noting that everything average worker earned up to April 30 this year went to pay federal, state and local taxes. The nonpartisan research organization identifies annually what it calls "Tax Freedom Day." Tax freedom day came day later this year than in 1984, but trend has been toward earlier date since enactment of President Reagan's tax cut program in 1981. Day that year was May 6. It was May 4 in 1982 and May 1 in 1983. Impact of increases in Social Security and some other federal taxes since 1982, plus state and local increases, caused slippage.

► **KEEP SUPERFUND SPENDING WITHIN LIMITS** proposed by Environmental Protection Agency, business urges Congress. Agency is proposing to spend \$5.3 billion over five years on program to clean up inactive and abandoned hazardous-waste sites. It says that is as much as it can handle effectively. Other proposals before Congress would double spending total recommended by EPA. Opponents of that approach argue it could become counterproductive to Superfund goals by

WASHINGTON LETTER

raising public expectations that might not be fulfilled. They also say that funding levels could be adjusted if EPA proves able to handle increased funding later in life of program.

► **LEANER AND MEANER STEEL** Industry in the United States will emerge from current steel difficulties, predicts study sponsored by National Academy of Engineering. Industry of future will be smaller but more efficient and better able to compete in world markets. Government enforcement of fair trade practices will help American firms, academy panel says, but antitrust policy also should be liberalized to allow mergers that will save most efficient plants.

► **QUALITY OF AIR** inside airline cabins is subject of study by the National Research Council for Federal Aviation Administration. Health and safety of crews and passengers is main focus. Public hearing will be held on subject June 12 and 13 at National Academy of Sciences in Washington.

► **BUSINESS AND ORGANIZED LABOR** continue combined support of one-year-old National Endowment for Democracy. Through U.S. Chamber's Center for International Private Enterprise--CIPE--and AFL-CIO's Free Trade Union Institute, the endowment has made progress toward goal of shoring up democratic institutions in foreign countries. CIPE is helping business organizations abroad to advocate open market economies and open political systems. Congress is being asked to keep endowment going.

► **SMALL BUSINESSES WILL BE TAXED** on "imputed interest" if Congress does not act by July 1 to stop it. Tax rule, enacted last year, would require that seller financing of sales of equipment or real property could not have an interest rate lower than 110 percent of federal borrowing rate without incurring a tax penalty. If the rate were

lower, Internal Revenue Service would "impute" to seller an interest rate of 120 percent of Treasury loan rate, and he would be taxed on "imputed" revenue. Business lobbyists, who first won deferral of rule to July 1 for transactions under \$2 million, are now seeking to exempt small business permanently. House has passed bill to set rate for transactions under \$2 million at 9 percent, or 100 percent of federal rate. Sales over \$4 million would be at 100 percent of federal rate; amounts in between at a blend of the two rates. Senate must now take up bill.

► **HOSPITAL COSTS STILL MODERATING.** In 1984, costs rose 4.5 percent compared with 10.2 percent in 1983. Business pressure for cost containment plus Medicare changes are main causes, says American Hospital Association. There were 1.5 million fewer admissions, occupancy dropped to 66.6 percent, and average length of stay fell 5 percent to 6.7 days.

► **ONLY THREE U.S. COMPANIES** still manufacture anesthesia machines, down from nine a few years ago. Great increase in cost of product liability suits and liability insurance is blamed by sponsors of corrective legislation. They say manufacturers need uniform product liability law to outline manufacturers' responsibilities and consumers' rights. Otherwise, they say, quality of medical care will be threatened.

► **STABLE OIL PRICES FOR THE NEXT** three years are seen likely by experts. Depressed worldwide demand for crude has been exerting downward pressure on prices and threatening OPEC control over production and pricing. Decline in exchange value of dollar or end to the Iraq-Iran war would squeeze OPEC's control further. But collapse in prices would lead to imposition of tariffs by major importing nations wishing to discourage return to overconsumption.

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Planning Woes at Closely Held Firms

The daily pressures of running a small closely held firm can lead owners to ignore long-term business and personal planning, says management expert Raymond Mullaney.

"Too many owners don't take the trouble to gather available facts, analyze options or develop a concrete plan," says Mullaney, head of Capital Planning & Services in Topsfield, Mass.

Mullaney's list of the most frequent financial sins of small business owners:

- No personal investment strategy. Many owners put all their assets into one business—usually their own—instead of acquiring a portfolio of diverse personal capital investments.

- Inadequate provision for transfer of ownership and management. A will is not enough to reduce taxes or avoid family rifts over how the business will be passed to heirs. What is needed is a shareholder agreement that allows owners to pass their wealth to future generations with the most advantageous tax consequences. The agreement should be tightly structured so that shareholders currently running the business are not saddled with unwanted or incompetent partners.

- Automatically leasing instead of buying. One often-ignored option is for a principal to own the equipment and lease it to his company. "Personal tax savings are accrued if the owner's tax bracket is substantially higher than the corporation's," Mullaney says.

- No written agreements in family-held businesses. All understandings must be in writing, family or not. Serious disagreements can occur within the family over personal or major business decisions that, if not resolved, can eventually disrupt the business and its profitability.

- No cash management system. In addition to having the cash to meet payroll, tax and other demands, owners must determine how much of a credit line should be established to meet occasional crunches. Mullaney adds that "if you plan your credit needs in advance and make a proper presentation, you'll often obtain a more favorable interest rate than if your borrowing is last minute."



ILLUSTRATION: STEVE MADISON

- Fear of a public offering. Owners should not be so quick to turn to venture capitalists for financing. The better choice may be a public offering. Ownership then is distributed widely, allowing the original owners to maintain greater control of the business.

- Failure to plan. Few small firms have a business plan covering growth, capital requirements, contingencies, etc. Those that do formulate such a plan usually ignore it. According to Mullaney, at least 5 percent of top management's time must be devoted to long-range planning. Otherwise the business may stagnate or miss opportunities.

Worth Noting

- As part of President Reagan's Small Business Revitalization Program, 28 Maine banks are making \$318 million available for long-term expansion loans to healthy small and medium-sized Maine companies. The loan terms are 15 to 25 years for real estate and 7 to 10 years for machinery and equipment.

- Ohio's Department of Development is publishing a weekly "Small Business Register"—a summary of proposed state agency rules and regulations affecting small firms. Business owners can now respond to these proposals before they go into effect.

- Small firms will have a chance to pitch their chemical technology and products to large companies at the Chemical Innovation Conference, June 12-14 at Loews Glenpointe Hotel in Teaneck, N.J. For further information, call Joanne Martin, executive director,

American Association of Small Research Companies, Prospect Park, Pa., at (215) 522-1500.

- The marketing and social research firm of Yankelevich, Skelly & White is now in the midst of a study to get the small business viewpoint on dealings with large firms by surveying a national sample of chief executive officers running the 2.5 million independent companies with sales of up to \$25 million.

"Major corporations are having trouble capitalizing on the opportunities presented by small business," says Florence Skelly, the firm's president. "They need a way to translate 2.5 million independent-minded decision makers into a definable market."

Honoring the Advocates

The Small Business Administration recently honored its small business advocates of the year at ceremonies in Washington.

This year's winners: Joe B. Pacheco, Jr., a certified public accountant in Murray, Utah, for providing accounting systems for small firms and for volunteering his services to minority business organizations.

Jerry Adams, president and owner of American Dream Realty, Ltd., in Midlothian, Va., for helping veteran-owned small firms.

Gene Boyer, a consultant and business trainer in Beaver Dam, Wis., for her active interest in promoting free enterprise for women.

Denise A. Carabet, assistant city editor-special projects for the *San Diego Tribune* for her semiweekly column on small business.

Steven I. Butler, a banker in Denver, for promoting financial assistance for small firms.

Esperanza M. Guerrero, a senior consultant with Price Waterhouse in Tucson, Ariz., for helping minority firms gain access to financial and management assistance.

Elizabeth Gould, vice president of National Graphics International in St. Louis, for helping other firms get involved in exporting.

—Mary-Margaret Wantuck

P

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Inflation: A View From the Fed



Moderate inflation can make lower interest rates possible. One firm says annual percentage rates on loans for some autos are now the lowest since the 1930s.

The lid will stay on inflation even though the Federal Reserve Board is busy priming the pump by adding money to the economy, says Fed Vice Chairman Preston Martin. The pump priming is aimed at avoiding what Martin calls the "real threat" of a "growth recession" later this year.

A growth recession, in economists' parlance, is two or more consecutive quarters in which economic growth is insufficient to stop unemployment from rising.

Martin says the economy nearly stalled last winter, and since then the money supply has been growing at an annual rate near 10 percent—a level that some economists say will cause prices to rise later on. But Martin sees things differently. "Inflationary forces may even have some downward momentum," he says. Martin points to low unit labor cost increases and a healthy rise in productivity.

Other factors that Martin says augur a continuation of low inflation include relatively high levels of excess industrial capacity, both domestically and abroad, plus plenty of slack in labor markets, as unemployment hovers above 7 percent.

Economists say that as long as the Fed is a net buyer of government securities, and thus adding to the supply of money, short-term interest rates should fall. If expectations about inflation remain moderate, long-term rates should also ease—at least that is what Reagan administration officials privately say they are hoping for.

Martin says that a slowdown in the velocity of money—the speed with which it circulates through the economy—distorts the relationship between money growth and the resulting change in economic activity. "Faster money growth," he says, is "necessary to achieve an acceptable rate of economic growth; it does not mean taking one's eye off the danger of re-inflation."

Measuring the Economy

Private economists' techniques for gauging the economy's direction frequently include measures of the change in the money supply.

Roger Williams, publisher of *Williams Trend Indicators* and a former Standard & Poor's Corporation chief economist, predicts booms and busts by using an index based on the combined rate of change in employment and the money supply.

"As long as that rate of change is positive you can forget about a real recession," Williams says. He notes that changes in both employment (rising at an annual rate of about 3 percent) and the money supply (rising at near double-digit rates since last fall) are strongly positive.

Albert M. Wojnilower, First Boston Corporation's chief economist, agrees that there is "no recession in sight." Accumulation of excess inventories later in the year, he says, would foreshadow the next business slowdown. But he predicts that the Fed, intent on avoid-

ing a recession, would react by lowering interest rates again.

"Similar swings back and forth in interest rates are likely to persist until resurgence of inflation forces the authorities into a longer-lasting restrictive stance," Wojnilower says.

Some long-term population shifts suggest lower interest rates later on, according to a report by Philadelphia's First Pennsylvania Corporation. Economist Paul R. Kutasovic says that the savings rate will go up as the baby-boomers reach middle age and the young make up a smaller share of the population.

Why? Middle-aged people save more and spend less on first-time purchases like homes and other big-ticket consumer goods. The demand for mortgage and consumer credit thus should ebb. Kutasovic says, though the demand for such things as medical and leisure services should rise.

Tax Law Culprits

Instead of placing all of the blame on Japan for the nation's ballooning trade deficit, the United States should take a look at its own tax laws for clues as to how to correct the situation, says Edward Guay, Cigna Corporation's chief economist.

He says that investment incentives have pushed up the rate of return on assets, and, as a result, interest rates have risen as borrowers have taken advantage of those higher rates of return on investment. Drawn by higher rates, Guay says, foreign money has poured into the United States.

The result, he says, is a reversal of the traditional flow of credit around the world:

"The banking system changed, from raising funds in the United States for distribution to the rest of the world to moving funds from the rest of the world to the newly attractive lending opportunities in the United States."

This change in financial flows, he says, has as its primary consequence a reversal in the flow of goods. Just as the United States has changed from lender to borrower, it has become an importer rather than an exporter of goods, Guay says. His solution is tax reform, in which marginal tax rates are lowered and investment subsidies are reduced.

—Peter A. Holmes

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A Vacation Plan Bonus

By Gerald W. Padwe, C.P.A.

Every business with a vacation pay plan has a no-risk tax advantage just waiting to be grabbed. All you have to do is ask. The advantage hinges on an obscure section of the Internal Revenue Code that was altered in the 1984 Tax Act. To understand it, one must go back a little further in tax history.

Under general tax accounting rules, an employer could not deduct, in the current year, vacation pay that would not be payable until the following year—unless the vacation pay was vested (that is, the employee would receive it even if he were fired, resigned, or became disabled). For nonvested plans, under which accrued vacation pay was subject to possible forfeiture, the rules allowed no deduction until the employee was actually paid.

In 1973 Congress first permitted nonvested-plan companies to elect to deduct vacation pay accrued at year's end. But there was one big catch: Whatever amount had accrued at the beginning of the election year would not be currently deductible—it was put in "suspense," deductible in full only when the business terminated, or in part as the company's payroll shrank.

Vested-plan companies had no such problem, since, under normal tax accounting rules, they were allowed to deduct increases in accruals as they built up. Because nonvested plans might be changed to vested ones, thus allowing deduction of the opening balance after vesting, very few nonvested plan companies made the election.

The change in the 1984 law removes from vested plans the employer's right to deduct additions to the reserve, unless it gives the employee his accrued vacation pay within 2½ months after the year in which it is earned (not a strong likelihood). But for the first time, the law allows vested plans to use the special election.

If the election is made in the first year after the 1984 act, because normal accrual accounting would already have resulted in deducting the suspense amount there will not be a first-year accrual disallowance. If the employer

waits several years, the regular nondeductible penalty will apply.

Thus, for any vacation plan, making the election is now the only viable method of accruing vacation pay, whether vested or nonvested. Therefore, employers not previously accruing vacation pay should reexamine their options. Though the beginning suspense account will continue to be generally nondeductible, companies will receive a tax deduction for growth in their total

the amount of earned vacation pay on Dec. 31, 1986, is \$120,000. If the accrual election is not made, tax deductions for vacation pay in 1985 and 1986 will be \$95,000 and \$105,000 respectively (the actual amounts paid out). If the election is made, the comparable tax deductions will be \$105,000 and \$115,000.

FIRPTA Withholding

Since 1980, nonresident aliens who sell U.S. real property (or, in some cases, stock of U.S. companies) have been taxed under the Foreign Investment in Real Property Tax Act. Effective in 1985 new withholding rules require the buyer—often, an American—to

determine if the seller is foreign. If so, the buyer may have to withhold 10 to 28 percent of the proceeds for payment to the Internal Revenue Service. These rules apply to all buyers of U.S. real estate (unless the purchase is of a principal residence for less than \$300,000) and to buyers of stock in a nonpublicly traded U.S. company.

Withholding obligations are not safely ignored. Buyers themselves may be held liable for the tax if they have improperly failed to withhold, and there is no statute of limitations on an unpaid withholding tax liability.

Sellers can avoid FIRPTA withholding if they give the buyer a "certificate of nonforeign status." Or they can reduce the amount withheld from their proceeds by applying to the IRS (in advance of the closing) for a certificate permitting reduced withholding. In a stock sale, the seller may also obtain a certificate that the company's stock is not subject to these provisions.

Real estate brokers can also be liable for unpaid tax if they fail to inform a buyer of any known falsehood in a seller's certification.

As a result of these new withholding rules, both parties to a real estate or stock sale must take steps to allow closing to proceed smoothly. At a minimum, this requires potentially affected buyers to satisfy themselves that the seller is not a foreigner. If he is, the buyer must take appropriate steps to satisfy (or legally avoid) the FIRPTA withholding rules.



Many vacation pay plans now contain a tax advantage that they did not before the 1984 tax year.

accrued vacation pay—and for many the deduction will be allowed up to a year earlier than it would be if claimed only as amounts were paid out.

Even in companies with a stable work force, the effect of inflation on salaries will almost always result in some growth in the amount of accrued vacation pay. For companies with a growing work force, not only is there a tax benefit from real and inflationary growth in payroll vacation costs, but they also receive full deductions for the earned vacation pay of newer employees.

Assume a calendar year employer's earned vacation pay for its employees totaled \$100,000 last December 31. Only \$95,000 of this amount is actually paid out in 1985, and the amount of earned vacation pay in existence this December 31 is \$110,000. Next year, \$105,000 in vacation pay is actually paid out, and

GERALD W. PADWE is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.



How To Spark New Ideas

To turn your dreams into dollars, you and your employees must learn to think creatively.

By Sharon Nelton

CONSIDER WHAT a creative breakthrough can do for a company. James Schlatter, a research chemist at G.D. Searle & Company, discovered aspartame and launched the pharmaceutical firm into the food business. Introduced nationally in 1982, NutraSweet, Searle's brand name for the low-calorie sweetener, brought the company \$585 million last year.

Herman Miller, Inc., has been creating benchmarks in office furniture and environments since the 1930s. In 1968, the Zeeland, Mich., firm introduced the "Action Office," a concept of separating work spaces by shoulder-level dividers that has since become familiar in American offices. The firm is known for its Eames and Ergon chairs and last year came out with the Equa chair, seating that adjusts to your body when you sit in it, and the Ethospace office, a complex of furniture and interior architecture aimed at humanizing and personalizing workspaces.

Its consistently creative output enabled Herman Miller to grow from a \$30 million company with 500 employees

in 1973 to over \$400 million in sales and 3,000 employees in 1984.

Smaller companies know the value of creativity, too. Alan Canfield, senior vice president of A.J. Canfield Company, a regional beverage maker based in Chicago, wanted to develop a unique product to enter the diet soda market.

He came up with a formidable challenge for his chief chemist, Emanuel Wesber: Develop a diet soda that smelled and tasted like Fannie May fudge.

It took Wesber more than a year, but Canfield brought out Diet Chocolate Fudge Soda in the early 1970s. It enjoyed a modest success, and the company was ready when a series of events combined to send sales soaring.

One was the evolution of the fitness boom, which heightened the demand for diet drinks. Then came NutraSweet, which improved the taste but not the caloric content of such drinks. Canfield devised a way to cut distribution costs to offset the higher cost of the NutraSweet and launched a \$350,000 television campaign. The effort received an

extra push when nationally syndicated *Chicago Tribune* columnist Bob Greene wrote that the soda had helped him lose 22 pounds.

Canfield sold 30 million cans of its diet fudge soda in the first three months of 1985 alone, compared with 1 million all last year. Instead of just four Midwestern states, the company now reaches 44 states.

The fudge soda and other innovations (such as a carbonated water that outsells Perrier in the Midwest) has helped the firm grow from 260 employees in the pre-diet fudge days to nearly 500.

Call it creativity or innovation, the ability to come up with new ideas and make them work is, for most companies, the only way to stay alive. "An established company which in an age demanding innovation is not capable of innovation is doomed to decline and extinction," predicted management sage Peter F. Drucker a dozen years ago. "And a management which in such a period does not know how to manage innovation is incompetent and unequal to its task. Managing innovation will

NATION'S BUSINESS • JUNE 1985

Views of green spaces, playful sculptures (right) and vibrant art (below) are part of Herman Miller's "catalytic" environment, says David L. Armstrong (left), comfortable in the company's new Equa chair.

increasingly become a challenge to management, and especially to top management, and a touchstone of its competence."

How, then, can managers enhance creativity in their companies? The secret, many managers and experts agree, lies in developing a work environment in which creativity can flourish. While some chief executives bemoan the lack of creativity in their companies and blame employees, others hold themselves accountable for nourishing innovation.

"Responsibility for creative excellence starts at the top," says Norman W. Brown, president and CEO of Foote, Cone & Belding, the world's eighth largest advertising agency. "It is my primary responsibility."

Since creativity is central to the advertising business, Brown wanted to be sure that FCB was doing everything that could be done to support it. In late 1983, he set up a "creative strategy task force" representing the different disciplines and geographic areas of the Chicago-based company. For the next nine months, the team tracked ad campaigns, good and bad, back to their inception to find out what people and processes were used in their creation.

As a result of the task force findings, FCB adopted a set of principles called its "Strategic Creative Development Process." The principles appear in FCB's 1984 annual report. One of the most fundamental calls for "close collaboration between analyst and artist."

TRADITIONALLY, Brown explains, advertising campaign strategies have been devised by the advertising company's account executives working with managers from the client companies. Such executives, says Brown, are "left-brained" people, who rely primarily on the analytical left hemisphere of the brain and are logical, orderly and highly verbal. A strategy conceived that way was considered inviolate, and would then be turned over to the creative staff—writers and artists, for example—for implementation. "Their work would be evaluated precisely and often literally against that strategy."

But Brown says the task force learned that by themselves, the left-brained people "articulate strategies in a closed way that tends to defeat the creative spirit rather than serve as a launching platform for creativity."

"What we found is that at its best, strategy itself is often a creative process. Logical, linear thinking only takes you so far and seldom makes the leap



PHOTO BY MICHAEL DEER



Allowed to "meander," researchers often produce remarkable solutions to problems, says Richard Wright of Mead Corporation.

Wright's team has refined a way to make quality color prints that can be used to reproduce computer images.



PHOTO: GAWSON JONES

to truly brilliant, insightful strategy."

Now FCB brings the creative people—those who rely on the intuitive, artistic right hemisphere of the brain—into the process from the beginning, involving them in setting strategy as well as carrying it out. And once it is formulated, the strategy is no longer untouchable. Sometimes, says Brown, the work of the creative team will lead to an improvement in the strategy.

In a recent newsletter, Haley Associates, Inc., a New York executive recruiting firm, says it has noticed that more clients have begun to ask for candidates with creativity. But companies often make this request gingerly, "as if creativity were a rare and volatile gift for which they will have to pay too high a price. The unspoken plea is 'give us an innovative thinker, but please make him someone who can straighten his tie and get along with the staff.'"

Many managers are uncomfortable with creative people and do not regard themselves or their jobs as creative, according to Stanley S. Gryskiewicz, director of creativity development at the Center for Creative Leadership in Greensboro, N.C. As an early step in making their companies more innovative, he encourages managers to discard some old notions about creativity. Gryskiewicz, who defines creativity as "bringing something into existence for the first time," says some executives view creativity as something that is magical or mystical.

But Gryskiewicz says that everyone is creative, though styles of creativity may differ. "Innovators" challenge the definitions of problems to be solved and aim at doing things differently, while "adapters" accept problems as defined but work to do things better. Companies need both types, says Gryskiewicz.

And they need to look at creativity not as something mysterious but as a resource that can be developed. By taking that attitude, he says, "executives may be able to reconcile the need for innovation with the need for conservative, low-risk management styles."

When companies ask a recruiter to find creative managers, says Thomas H. Ogdon, Haley Associates executive vice president, they are looking for someone with "the ability to enter the problem-solving process with a fresher mind and come out with solutions that are unique." They want this quality combined with management and organizational skills.

The recruiting firm looks for an affirmative answer to three questions when it is evaluating a candidate: Does he look at a situation from several points of view? Does he resist snap judgments? Is there an absence of absolutes from his thinking?

HAD HE BEEN put through the Haley screening process, Richard F. Wright probably would have filled the bill. Four years ago, Wright headed up an advanced product development team of six scientists and technicians at Mead Corporation, the paper products company headquartered in Dayton. He took an interest in the work of Fred Sanders, an inventor who was working in a different department at Mead and who was sneaking some experimental time for a new idea he had: a process for dry-developing color images on light-sensitive paper.

The company had done no imaging research, and there was little excitement about Sanders' results, which, so far, were crude. But Wright, a chemist who had worked for Polaroid, saw the potential. He and his boss convinced Mead management to support research to develop the process further. Sanders

(now retired) joined Wright's group, and the project was under way.

Today, the process is so advanced that the color images produced are of the quality found in better magazines. It is not on the market yet, however. Ultimately, the process will be linked with computers to make high-quality prints of images created on color screens at higher speed and lower cost than current technologies, such as ink jet and thermal transfer, permit.

While the Mead system is ready, the printer capable of linking the computer with that process is not. Wright's people are working with hardware manufacturers to help them develop a printer that would use the Mead light-sensitive paper.

Last year, Mead Imaging, an outgrowth of Wright's group, was formed as a separate division of Mead to commercialize the new technology. Wright, who expects that the system can be brought to market by 1988, is vice president of research and development of the new division. His original team of six has grown to 55, including 35 R&D scientists and technicians.

In the process of refining a new technology and making it marketable, Wright's high-performing group has filed nearly 40 patent applications.

What kinds of management techniques did Wright use to bring about such a productive creative effort?

"The key idea came from an individual, as it almost always does, but it had to have a group of people to turn it into something useful," answers Wright. "One of the major factors in group creativity is focusing an individual's creative impulses on a group problem."

Wright uses the words "innovation" and "creativity" interchangeably. Having a "great new idea, period" is not enough. "In my view, something's got to happen," he says.

He practices "management by walk-
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Creativity is not magical or mystical. It is a resource that companies can develop, contends Stanley S. Gryskiewicz of the Center for Creative Leadership.

ing around," a Hewlett-Packard technique popularized by the book *In Search of Excellence*. "My style has always been one of spending most of my day walking around the halls talking to people and being aware of what is happening in the group," says Wright. "I do most of my work out in the hallways."

But he says a manager has "to walk a fine line between interfering in everybody's work and being supportive." He sees the role of the research and development manager not as one of controlling and manipulating employees but of being a leader. He also allows what he calls "creative meandering," permitting employees to set their own directions as long as they are focusing on the group objective.

CORPORATE CULTURE and a physical environment that helps express that culture are key factors in nurturing creativity at Herman Miller, Inc.

"We're a research-driven product company," says David L. Armstrong, vice president of marketing. Instead of "surveying the market and making something to sell next year," he explains, the company's research subsidiary studies workplaces and tries to solve problems in work environments.

Herman Miller saw, for example, that most people did not make use of all the adjustments and knobs on office chairs that are supposed to make them more comfortable. They needed chairs that would be comfortable without manipulating knobs. "Therefore, we set out to design a chair to solve that problem," says Armstrong. The answer was the Equa chair, which is designed to

flex in response to the person sitting in it and permits one to recline while keeping one's feet flat on the floor.

Another important aspect of the Herman Miller culture is that it is a "Scanlon Plan" company, adhering to principles developed years ago by labor leader Joseph Scanlon. Under the program, all employees participate in the management of the corporation by meeting in small groups to gather and share information about company performance, from the scrap rate to the percentage of shipments that are on time. Group representatives meet once a month with corporate officers to discuss performance and ways of improving it.

"I think the organization is by nature permission-giving," Armstrong says. "It gives permission to participate and understand. It also gives permission to make mistakes, be vulnerable and try new things. I think it sets up an atmosphere that's extremely active and productive in creative endeavors."

Just as Herman Miller is concerned with the workplaces of its customers, it gives attention to its own physical environment. While workspaces vary according to function and location of a given facility, many are colorful and full of light, with windows opening onto green spaces. The company is known for the playful life-size sculptures of working people, by Stephen Hansen, that adorn the buildings. Armstrong calls it a "very work-rich environment" and finds it "extremely catalytic."

In recent research, Teresa M. Amabile, an assistant professor of psychology at Brandeis University and an associate of the Center for Creative

Leadership, interviewed 46 research and development managers in over two dozen companies to learn which factors stimulate creativity and which ones inhibit it.

"Freedom" was the most commonly mentioned environmental stimulant for creativity. According to Amabile, this meant "freedom in deciding what to do or how to do it, a sense of control over one's ideas, a freedom from having to meet someone else's constraints, a generally open atmosphere."

It did not mean a complete absence of supervision, however. Usually, a project manager and higher-level supervisors played an important role in setting the direction of a project. "In those instances," says Amabile, "freedom came from the scientists' sense that their own ideas contributed in a major way to the day-by-day scientific conduct of their work."

THE MOST COMMONLY mentioned obstacle to creativity, according to the study, was constraint. "Constraint included an absence of freedom in deciding what to do or how to do it, a lack of control over one's own ideas," says Amabile.

The study supports the idea that broad goal setting is still necessary, however. Said one manager of a successful project: "I gave the people involved a clear idea of what the end product was going to be. I attempted to get each person involved in those aspects that were in their expertise, and I asked them how they would go about doing it. Beyond that, I let people set their own goals and manage their own business."

In contrast, another respondent said that a project suffered because not even broad goals were being set: "It's hard to work without certain goals in mind."

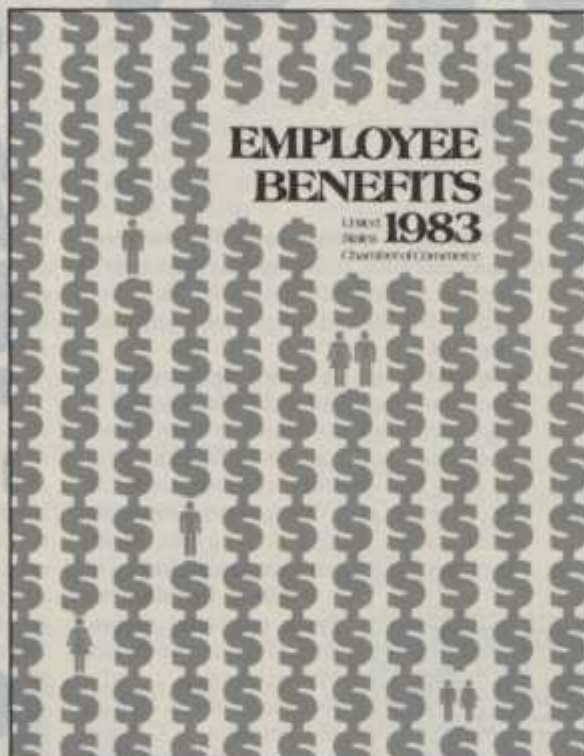
Effectively pursued, creativity is not only good for a company's bottom line, it is also good for the organization itself. According to Eugene Raudsepp, president of Princeton Creative Research, Inc., in Princeton, N.J., creativity spurs increased productivity by revitalizing employee motivation and generating effective team performance.

Managers everywhere are finding that they can plan for and nurture creativity. They can, in fact, take the mystery out of it and take steps to unleash and harness the good ideas that reside within subordinates—and within themselves. Together with psychologists, behavioral scientists and other experts on creativity, they have uncovered ways to help innovation flourish. Here are some of the best ideas:

- **Encourage active communication.** Don't worry if subordinates spend a lot of time talking with each other, advises

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Mead's Richard Wright; you'll find out soon enough who's really wasting time. When people talk with each other often, they soon start sharing a lot of wild ideas, some of which will be good for the company.

"We don't have to structure meetings to do brainstorming," says Wright. "You can walk down the halls here and find brainstorming sessions going on across group lines almost constantly."

"Some of the most exciting things that happen in our group happen because these conversations take place."

• **Make use of diversity.** That's what Foote, Cone & Belding did when it brought its analytical people together with its artistic people in developing ad strategies.

Creativity experts say that bringing together people with diverse backgrounds enhances the cross-fertilization process that is helpful in generating ideas. People from outside your field, for example, don't know that "something can't be done." They sometimes offer an entirely new—and workable—perspective.

• **Minimize fear of failure.** "Act in a way that clearly demonstrates the attitude that if ideas are not adapted or do not work out, they are not wasted," counsels Eugene Raudsepp. "Regard errors and mistakes as opportunities for learning."

"Punitive action for every mistake or failure leads to excessive dependence on safe ways of doing things," he says.

• **Keep an open mind.** Listen to all ideas, no matter how farfetched, and try to develop a capacity for recognizing a good idea when you see one—even if it is your own.

Denise Ertell, director of public affairs at Searle, says James Schlatter's discovery of aspartame came about by accident. He was heating a combination of amino acids and accidentally spilled some of the mixture on his fingers. Later on, he licked a finger to pick up a piece of filter paper and noticed a very sweet taste. He finally traced it back to the compound he was working with. He had the sense to recognize that the discovery might be useful—and so, says Ertell, did others in the company.

"Listening to your customers is the best way to make your business grow," contends Leonard A. Lauder, president and chief executive officer of

Estée Lauder, Inc. In 1958, a cosmetic buyer for Neiman Marcus asked Lauder why the company didn't sell its product, Youth Dew, as a fragrance instead of a bath oil. That was how people were really using it, the buyer said.

Lauder tried it. "I made up a few hundred thousand samples as a perfume. I didn't change the formula. I simply put it in a bottle and said put it on your body rather than dump it into the bath."

When it was sold as a bath oil 17 years ago, Youth Dew sales were \$50,000 a year. Last year, its sales as a fragrance were \$150 million worldwide.

• **Embrace fun.** Many creative people believe that having fun is essential to the process of creating. A Herman Miller brochure even speaks of one of its designers, Bill Stumpf, as "just a big kid. Ergonomic design is his playground."

• **Budget adequately for innovation.** Herman Miller spends just over 3 percent of its budget on R&D, and that is high for the industry. The results are worth it.

• **Instill a positive attitude.** In group settings, for example, instead of trying to find the flaws in new ideas, encourage your people to find the pluses first and examine the negatives later. In such an atmosphere, people become more willing to suggest ideas; they need not fear being ridiculed.

• **Allow for diversity in personal styles.**

Jack Pentec, an artist-entrepreneur who founded Pentec Design in Charlotte, N.C., says he realized that he did

some of his best thinking in the shower when he heard how often he started staff meetings with, "I had this idea in the shower this morning..."

Some people get their best ideas while walking on the beach or jogging, others during the relaxed moment just before sleep, and still others while on vacation.

Mead Corporation executive Richard Wright recalls that, as a young chemist at another company, he would frequently leave his work station to ponder problems while walking around the building, then feel guilty about being nonproductive. A boss told Wright, however, that he was doing fine and should continue to follow whatever style best suited him when it came to searching for new ideas.

Wright soon recognized the wisdom of that advice. An assignment relating to analysis of body fluids led to a walk along a river bank, where he worked out one of his best ideas toward the solution of the problem. He went back to the company, sat down in the cafeteria with a cup of coffee and wrote out the idea on a napkin.

The napkin, he says, is still in the company's files. Wherever it is, it is a symbol of two key factors in the proper approach to creativity: managers who recognize that different people need different types of environments in which to stretch their imaginations and workers who can take advantage of these environments, which can range from a well-equipped laboratory to a river bank.



To order reprints of this article, see page 73.



RULES FOR BRAINSTORMING

R&D managers at a Center for Creative Leadership seminar brainstorm uses for felt scrap from tennis balls. One idea: fish hook holders.



How Creative Are You?

By Eugene Raudsepp

How creative are you? The following test helps you determine if you have the personality traits, attitudes, values, motivations and interests that make up creativity. It is based on several years' study of attributes possessed by men and women in a variety of fields and occupations who think and act creatively.

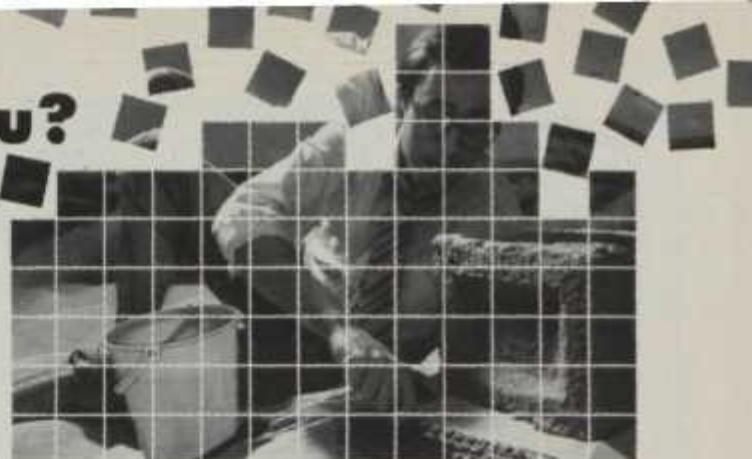
For each statement write in the appropriate letter:

A = Agree; **B** = In-Between or Don't Know;

C = Disagree

Be as frank as possible. Try not to second-guess how a creative person might respond.

- 1. I always work with a great deal of certainty that I am following the correct procedure for solving a particular problem.
- 2. It would be a waste of time for me to ask questions if I had no hope of obtaining answers.
- 3. I concentrate harder on whatever interests me than do most people.
- 4. I feel that a logical step-by-step method is best for solving problems.
- 5. In groups I occasionally voice opinions that seem to turn some people off.
- 6. I spend a great deal of time thinking about what others think of me.
- 7. It is more important for me to do what I believe to be right than to try to win the approval of others.
- 8. People who seem uncertain about things lose my respect.
- 9. More than other people, I need to have things interesting and exciting.
- 10. I know how to keep my inner impulses in check.
- 11. I am able to stick with difficult problems over extended periods of time.
- 12. On occasion I get overly enthusiastic.
- 13. I often get my best ideas when doing nothing in particular.
- 14. I rely on intuitive hunches and the feeling of "rightness" or "wrongness" when moving toward the solution of a problem.
- 15. When problem solving, I work faster when analyzing the problem and slower when synthesizing the information I have gathered.
- 16. I sometimes get a kick out of breaking the rules and doing things I am not supposed to do.
- 17. I like hobbies that involve collecting things.
- 18. Daydreaming has provided the impetus for many of my more important projects.
- 19. I like people who are objective and rational.
- 20. If I had to choose from two occupations other than the one I now have, I would rather be a physician than an explorer.
- 21. I can get along more easily with people if they belong to about the same social and business class as myself.
- 22. I have a high degree of aesthetic sensitivity.
- 23. I am driven to achieve high status and power in life.



- 24. I like people who are most sure of their conclusions.
- 25. Inspiration has nothing to do with the successful solution of problems.
- 26. When I am in an argument, my greatest pleasure would be for the person who disagrees with me to become a friend, even at the price of sacrificing my point of view.
- 27. I am much more interested in coming up with new ideas than in trying to sell them to others.
- 28. I would enjoy spending an entire day alone, just "chewing the mental cud."
- 29. I tend to avoid situations in which I might feel inferior.
- 30. In evaluating information, the source is more important to me than the content.
- 31. I resent things being uncertain and unpredictable.
- 32. I like people who follow the rule, "business before pleasure."
- 33. Self-respect is much more important than the respect of others.
- 34. I feel that people who strive for perfection are unwise.
- 35. I prefer to work with others in a team effort rather than solo.
- 36. I like work in which I must influence others.
- 37. Many problems that I encounter in life cannot be resolved in terms of right or wrong solutions.
- 38. It is important for me to have a place for everything and everything in its place.
- 39. Writers who use strange and unusual words merely want to show off.
- 40. Below is a list of terms that describe people. Choose 10 words that best characterize you.

- | | | |
|--|---|--|
| <input type="checkbox"/> energetic | <input type="checkbox"/> factual | <input type="checkbox"/> courageous |
| <input type="checkbox"/> persuasive | <input type="checkbox"/> open-minded | <input type="checkbox"/> efficient |
| <input type="checkbox"/> observant | <input type="checkbox"/> tactful | <input type="checkbox"/> helpful |
| <input type="checkbox"/> fashionable | <input type="checkbox"/> inhibited | <input type="checkbox"/> perceptive |
| <input type="checkbox"/> self-confident | <input type="checkbox"/> enthusiastic | <input type="checkbox"/> quick |
| <input type="checkbox"/> persevering | <input type="checkbox"/> innovative | <input type="checkbox"/> good-natured |
| <input type="checkbox"/> original | <input type="checkbox"/> poised | <input type="checkbox"/> thorough |
| <input type="checkbox"/> cautious | <input type="checkbox"/> acquisitive | <input type="checkbox"/> impulsive |
| <input type="checkbox"/> habit-bound | <input type="checkbox"/> practical | <input type="checkbox"/> determined |
| <input type="checkbox"/> resourceful | <input type="checkbox"/> alert | <input type="checkbox"/> realistic |
| <input type="checkbox"/> egotistical | <input type="checkbox"/> curious | <input type="checkbox"/> modest |
| <input type="checkbox"/> independent | <input type="checkbox"/> organized | <input type="checkbox"/> involved |
| <input type="checkbox"/> stern | <input type="checkbox"/> unemotional | <input type="checkbox"/> absent-minded |
| <input type="checkbox"/> predictable | <input type="checkbox"/> clear-thinking | <input type="checkbox"/> flexible |
| <input type="checkbox"/> formal | <input type="checkbox"/> understanding | <input type="checkbox"/> sociable |
| <input type="checkbox"/> informal | <input type="checkbox"/> dynamic | <input type="checkbox"/> well-liked |
| <input type="checkbox"/> dedicated | <input type="checkbox"/> self-demanding | <input type="checkbox"/> restless |
| <input type="checkbox"/> forward-looking | <input type="checkbox"/> polished | <input type="checkbox"/> retiring |

How do you rate? See next page.

Scoring

To compute your score, circle and add up the values assigned to each item. The values are as follows:

	A Agree	B In-Between or Don't Know	C Disagree
1.	0	1	2
2.	0	1	2
3.	4	1	0
4.	-2	0	3
5.	2	1	0
6.	-1	0	3
7.	3	0	-1
8.	0	1	2
9.	3	0	-1
10.	1	0	3
11.	4	1	0
12.	3	0	-1
13.	2	1	0
14.	4	0	-2
15.	-1	0	2
16.	2	1	0
17.	0	1	2
18.	3	0	-1
19.	0	1	2
20.	0	1	2
21.	0	1	2
22.	3	0	-1
23.	0	1	2
24.	-1	0	2
25.	0	1	3
26.	-1	0	2
27.	2	1	0
28.	2	0	-1
29.	0	1	2
30.	-2	0	3
31.	0	1	2
32.	0	1	2
33.	3	0	-1
34.	-1	0	2
35.	0	1	2
36.	1	2	3
37.	2	1	0
38.	0	1	2
39.	-1	0	2

40. The following have values of 2:

energetic	dynamic	perceptive	dedicated
resourceful	flexible	innovative	courageous
original	observant	self-demanding	curious
enthusiastic	independent	persevering	involved

The following have values of 1:

self-confident	determined	informal	forward-looking
thorough	restless	alert	open-minded

The rest have values of 0.

95 - 116	Exceptionally Creative
65 - 94	Very Creative
40 - 64	Above Average
20 - 39	Average
10 - 19	Below Average
Below 10	Noncreative

Ways To Become More Creative

If you scored below your expectations, don't despair. By learning new attitudes, values and ways of approaching and solving problems, you can considerably enhance your creative powers. Here are some ways to increase your creative ability:

- **Keep track of your ideas at all times.** Carry a notebook wherever you go, and keep it at your bedside. Ideas come at strange times, frequently when we least expect them, and they may never come again. Listen to your hunches and intuitions, particularly during moments of relaxation, before going to sleep or upon awakening.

- **Pose new questions every day.** An inquiring mind is a creatively active mind. It is also a mind that constantly enlarges the area of its awareness.

- **Learn about things outside of your specialty.** Seemingly unrelated pieces of knowledge can often be brought together to solve problems or create new products and services.

- **Avoid rigid, set patterns of doing things.** Overcome fixed ideas and look for new viewpoints; try new ways. Attempt to find several solutions to each problem and develop the ability to drop one idea in favor of another.

- **Be open and receptive to ideas, others' as well as yours.** New ideas are fragile—listen positively to them. Seize on tentative, half-formed concepts and possibilities: A new idea seldom arrives as a complete ready-made package. Freely entertain apparently wild, farfetched or even silly ideas.

- **Be alert in observation.** Look for similarities, differences and unique and distinguishing features in objects, situations, processes and ideas. The more new associations and relationships you can form, the greater are your chances of coming up with really creative and original combinations and solutions.

- **Engage in hobbies.** Try ones that allow you to construct or produce something with your hands. This allows you to relax and enhances the creative problem-solving abilities so useful in your work. Also, keep your brain trim by playing games and doing puzzles and exercises.

- **Improve your sense of humor and laugh easily.** This helps you to put yourself and your problems into proper perspective. Humor relieves tension, and you are more creative when you are relaxed.

- **Adopt a risk-taking attitude.** Nothing is more fatal to creativity than fear of failure. Heed management consultant Chester Barnard's advice: "To try and fail is at least to learn. To fail to try is to suffer the inestimable loss of what might have been."

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Soviet Spying Made Easy

THERE ARE WEAKNESSES in the government's system of screening the more than 1 million defense industry employees who work on secret projects, concludes the Senate Permanent Subcommittee on Investigations.

In a months-long probe, culminating in hearings last April, the subcommittee found that too many people are being cleared, that they are not being thoroughly reviewed, and that the system is overloaded.

The investigation was triggered by a June, 1983, *NATION'S BUSINESS* article that said bottlenecks in the Pentagon's review process make the country's defense contractors more vulnerable to Soviet spying.

Sen. Sam Nunn (D-Ga.), ranking Democrat on the subcommittee, said then that the magazine "correctly points out that federal authorities must do a better job of educating businesses in how to improve their own security with regard to militarily critical technology. Equally important, each business executive whose firm is in this field—from R&D to production—must be ever mindful that Soviet bloc spies utilize a diversity of techniques in obtaining sensitive know-how. As the magazine's cover headline aptly warns, 'Soviet Spying: Are You Next?'"

Four days of hearings included testimony from a Soviet spy, an American spy, numerous federal counterespionage officials and representatives of major defense contractors whose security programs were penetrated by Soviet bloc agents.

They agreed on one point: The system is too loose to assure reasonable protection of the country's top defense secrets at a time when the Soviets are mounting a major campaign to steal American military technology.

Nunn, who is also a member of the Armed Services and Intelligence Committees, said he and other subcommittee members will introduce legislation this year to tighten procedures. Specifically, Nunn said the number of clearances for government and private sector employees must be reduced to include only those with a need to know. This, he added, will cut down on the workload of the Defense Investigative Service and other clearing agencies and permit them to do a better job of screening those who work on sensitive projects.

More than 4.2 million Americans are cleared for secret work.

"That means," said Sen. John Glenn

(D-Ohio), a subcommittee member, "that two out of every 100 people you walk past on the street are cleared for secrets. There aren't that many people who need to know these secrets."

Soviet bloc spies are offering huge financial inducements to defense workers with access to classified materials needed to modernize Warsaw Pact forces.

Christopher Boyce, known as the "Falcon," sold materials he smuggled out of a TRW, Inc., plant in California

pay your delinquent alimony. Be it for whatever reason, see a lawyer or a psychiatrist or a priest or even a reporter, but don't see a KGB agent. That is a solution to nothing."

TRW, said company security director Regis Carr, has made many improvements in safeguarding secrets since Boyce committed his crime eight years ago. "However," he said, "we know from past history that no security system is invulnerable, and therefore we must never become complacent."



Christopher "The Falcon" Boyce tells a Senate panel how easy it was for him to steal secrets for the Soviets from defense contractor TRW, Inc. in California.

to KGB agents in the Soviet Embassy in Mexico City. Now serving a 68-year prison term, Boyce testified before the subcommittee.

"I am still astounded at how easy the thing was to begin and, given the security system, how near impossible it was to prevent," he said. Security was so lax, Boyce said, "that we used the satchel for classified material as a cover to bring in peppermint schnapps, rum, Harvey Wallbanger mix and what have you."

HE HAD A message for Americans who might be tempted to sell to the Soviets:

"For whatever reason a person begins his involvement, a week after the folly begins, the original intent and purpose becomes lost in the ignominy of the ongoing nightmare. Be it to give your life meaning or to make a political statement. Be it to seek adventure or to

The Defense Investigative Service has only 1,535 investigators to clear more than 3 million military and defense industry workers. (Another 1.2 million people are cleared by other agencies, like the Central Intelligence Agency.) The result has been long backlogs.

DIS Director Thomas O'Brien told the subcommittee: "Personnel security is, in a way, like life insurance. How much do we need and how much can we afford? However, unlike a life insurance policy, wherein clear-cut events will eventually occur which prove the worth of the policy, it is not so simple in the personnel security arena to know how well one's program is working."

Sen. Albert Gore (D-Tenn.) said that "bureaucrats are giving out security clearances in an indiscriminate fashion [according to] procedures governed by a patchwork of executive orders and regulations." Concluded Nunn: "The system is mind-boggling."

Direct to the Consumer

A blend of direct marketing
and traditional in-store selling can
increase sales.

By John Schneider

FOR ITS FIRST plunge into marketing in 1978, a company that makes and markets silk clothes ran a color ad in a women's magazine. The ad solicited mail orders for a single item—Royal Silk's \$22 blouse.

Three thousand orders came in.

Royal Silk learned first hand the power of direct marketing. Last year, according to a Direct Marketing Association study, at-home mail and phone orders brought in \$170 billion to retailers, double the amount of five years before.

Traditional retailers are using the effectiveness of direct marketing techniques, sending out catalogs and even moving into newer technologies using computers, phone lines and videotext—two-way television ordering.

Direct marketing retailers are also trying out stores, confirming a finding in DMA's study that people who order at home will also go into stores, and vice versa, depending on needs.

Royal Silk, after more magazine ads and catalog mailings, found that customers were dropping by its Clifton, N.J., offices to look at merchandise. To satisfy these customers, the firm opened a 15,000-square-foot retail outlet on New York's Fifth Avenue. The store was breaking even in six weeks.

Today the company has four retail outlets, runs national magazine ads, mails 14 million catalogs yearly and reaches customers directly through videotex.

About 12 cents of every dollar coming to retailers flows in through the mail. However, direct mail sales are growing so fast—50 percent faster than traditional retail volume—that some industry observers expect direct mail to be pulling in 20 percent of general merchandise sales by 1990.

As Royal Silk Vice President Gerry Pike comments, "Smart retailers will see that and ask why they should be losing 12 percent of the market. And smart catalog people will wonder about losing 88 cents on the dollar." Retailers can gain new sales with direct mail, he says, and catalog or direct mail sellers



Vice President Gerry Pike (left) of Royal Silk says the company began its direct marketing approach with a single ad; now it has a complete in-house art department.

can add legitimacy to their operations with a retail outlet.

"Retail and direct marketing aren't antagonistic," Pike adds. "They both work and have merit."

Aaron Selber, Jr., president of Selber Brothers, Inc., agrees that direct mail helps retail sales.

"We're doing an increasing amount of direct mail," says Selber, who oversees a chain of seven specialty apparel stores from his Shreveport, La., headquarters. Mailings to charge account customers and rented lists "pique interest" in his stores, he says.

Direct marketing appeals to needs of

today's consumers. People are less interested in going into stores, because of traffic and parking snarls. And with the dramatically increased number of two-income families, shoppers find their time increasingly valuable.

Today's consumers expect marketing to focus on their specific desires.

For retailers who find the cost of opening new stores, remodeling current outlets, increasing inventories or training professional salespersons to be increasingly difficult, direct mail matches their needs with the desires of their customers. As Royal Silk's Pike says, the cost of catalog mailings is "cheaper

JOHN SCHNEIDER is a free-lance writer with a background in direct marketing.

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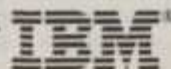
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One way to deal with tight store space, says William McDonald, is to use devices like his R.R. Donnelley's Electronistore to offer more products on less floor space.

than building stores and opening them."

Retailers can sell products that are in stock that appeal to customers' special desires. Well-written direct mail pieces are effective sellers and can prompt immediate orders or encourage customers to come to a store to see the products.

There are, however, differences between direct mail and in-store retailing. Denver-based direct mail consultant Maxwell Sroge says that people taking phone orders must be able to say more than "What do you need today?" Answers should be immediately available on questions concerning what's in stock, similar substitutes for out-of-stock items, available colors and how those colors match with other items you are offering.

Merchandise choice is also essential. Although some of the new electronic media can be used for mass marketing, direct mail usually appeals to specific market segments. "Choose a category of products you're experienced in, or a market segment you can serve well," Sroge advises.

Motivating people to

PHOTO: SCOTT SMITH



Aaron Seiber, Jr., of Seiber Brothers, Inc., says direct mailings pique interest in his apparel stores.

mail or call in an order requires an outstanding product or offer, like Royal Silk's one simple silk blouse at a very good price.

Many retailers start by mailing to people who already know them—their charge account customers—and add to that by purchasing lists of past direct mail buyers. Self-mailing ads—simple cards or folders—and stuffers in charge account statements are common examples of direct mail that can both bring in sales and encourage store traffic.

With a microcomputer, retailers can classify their charge customers. The primary classifications usually include the time since the most recent purchase, frequency of purchases over time and average amount spent.

DIRECT MAIL should then focus on customers at the top of all three categories, since they are the best prospects. Special offers can be used to urge less frequent buyers into action.

Catalogs are an extension of direct mail. Bloomingdale's started sending catalogs after finding that mailings designed to increase store traffic actually resulted in considerable phone and mail sales.

Bloomingdale's By Mail evolved into a separate profit center, second in dollar volume only to the chain's flagship store in New York.

Unique merchandise, specialized fulfillment and a financial commitment to direct marketing are keys to the success of both Bloomingdale's By Mail and Royal Silk. Such factors are important because the economics of catalog sales are such that money is made not on first-time orders but on repeat business.

"The rate of failure is high in direct mail," says consultant Sroge. "Compared with the cost of retailing, it's easy to enter, but most mail order businesses lose money the first three years."

Retailers generally use advertising to increase store traffic, rather than to solicit sales directly. Although some of the electronic media can generate sales, magazine ads with coupons are a more productive method.

Magazines offer flexibility. You can choose local or national audiences. Special interest magazines allow you to target your market carefully.

Advertising costs less than direct mail, but also brings in fewer responses. Gerry Pike says that a Royal Silk ad pays for itself when one tenth of 1 percent of the magazine's readers place an order. If the response rate rises to one fifth of 1 percent, Royal Silk makes money. In comparison, Royal Silk catalog mailings require a 2 percent response to break even. Catalogs can, however, sell higher-priced items.

ELECTRONIC SYSTEMS have limited uses. Cable television advertisers, for example, never know how many viewers are actually watching, although over 40 percent of American households now have basic cable service.

Videotex allows two-way communications and graphics presentation. It links information in a computer to television sets by using phone lines and a decoder.

CompuServe has a videotex service for personal computer owners. An "electronic mall" is part of the CompuServe database, which goes to over 150,000 consumers. "It's a great equalizer," says Product Marketing Manager Mary Vaughn. "A small store can strike out into a national market at low cost."

R.R. Donnelley's Electronistore and Compu-U-Card's The Shopping Machine are designed for use by retailers. Without taking up much space, the machines can offer new product lines or extensions of current lines. Electronistore President William McDonald says the machines should bring in \$150 to \$300 per day in sales, while taking up 45 square feet of floor space. Electronistore is making its machines available for lease this spring.

Direct marketing can expand a store's merchandise offerings or let the store go beyond its geographic setting to reach new customers. It can collect information on customers, to help retailers choose merchandise and delivery systems meeting different customers' needs.

"If you set yourself apart," Sroge says, "you give people a reason to come to you. The world will always respond to a great merchant."

The Word From Higher Up

Computer companies are rushing to enter the rapidly expanding communications field, in which sales of products will reach \$60 billion this year.

There is a rising demand for networks to carry digital, nonvoice information between multiple points, and increasingly these networks will use satellites instead of conventional telephone lines.

For example, Data General Corporation, a large manufacturer of business automation systems, has announced a joint marketing agreement with Equatorial Communications Company.

The Westboro, Mass., computer company and the Mountain View, Calif., data transmission firm will offer businesses that have many remote locations, such as banking, travel and consumer credit companies, their own private data networks, using satellites.

In large applications, with 100 or more locations, the satellite network will be cheaper than leased phone lines, the companies say.

Data General's "electronic office" software and hardware are already used by 80,000 companies worldwide. Equatorial makes and markets small, inexpensive earth stations and switching equipment for private satellite communications.

With long-distance telephone companies experiencing installation woes since the industry was deregulated, no-wire satellite networks also offer flexibility. When a company opens or moves an office, the network can be quickly restructured without waiting for lines to be installed. The new office thus can

open with full access to data files and program libraries at the corporate data base. The E.F. Hutton securities firm is already using such a setup.

Another, more specialized use of satellite communications will go into operation early next year when Geostar Corporation begins providing a new "positioning" service to enable clients to spot their trucks, airplanes or boats instantly anywhere in the United States or its coastal waters.

Geostar has contracted with RCA to build the first relay, which will be installed in a GTE satellite next November for launch from French Guiana early in 1986.

The Geostar system will send signals from the computer at a central ground station to a satellite to be amplified and beamed back to earth. A small transmitter-receiver in a truck or plane or boat will respond when its "number" is called with a signal of its own. This will give the central station what it needs to calculate, using its internal "map," the exact location of the unit, plus cargo status or other information.

Staying in Control

The market for process control equipment, like sensors, transducers and actuators on production machinery, will exceed \$2.7 billion this year and reach \$4 billion before 1990, says International Resource Development, Inc., a market research firm.

Rapid technological change is causing problems for control device manufacturers and for the plants that use

their products to maintain manufacturing precision and quality control. Fiber optics are replacing electrical conductors, electric actuators are replacing pneumatic devices, lasers and microwave diffraction are pushing aside older technologies.

Four companies—Foxboro, General Signal, Emerson Electric and Honeywell—command almost 50 percent of the control device market, with some 800 smaller companies sharing the rest, but rapid changes are pressing the leaders.

The IRD report predicts the strongest growth in materials analysis controls and in advanced sensors.

New Products

- Audec Corporation, of Saddle Brook, N.J., is marketing a telephone that you "dial" with your voice, and Key Tronic Corporation has a computer keyboard that executes spoken commands. Both use voice recognition technology to match spoken words with preprogrammed words and numbers.

- Manufacturers Hanover Bank has gone a step further than other banks that let you perform banking transactions like paying bills and transferring funds between accounts from your personal computer. Manufacturers Hanover also supplies a disk with 32 financial programs on it so you can plan investments, figure mortgages and file birthday reminders after you call the bank to get your financial data.

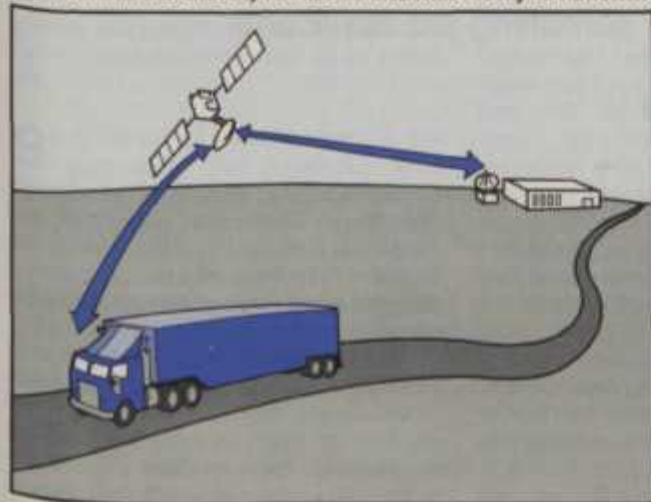
- Studio Software of Irvine, Calif., has announced an interface that links

IBM personal computers with Apple's new laser printer so both can be used with the company's page-composition software to produce "camera-ready" copy for brochures, newsletters or ads.

- For in-office printing, Xerox goes even further. It has announced an electronic publishing system that will let a company produce its own manuals, directories and catalogs on-site. The system uses Xerox's editing and pagination terminals, composition software and electronic printers.

—Harry Bacas

Geostar Corporation technicians test a small transmitter-receiver to be installed in a vehicle (as shown in the sketch) for use in a satellite-relayed nationwide "positioning" system.



WE'RE GOING TO invest \$20,000 to \$40,000 in a new employee in the first year, so we're pretty careful how we pick them," says Roy A. Smith, vice president of Associated Packaging, Inc., in Goodlettsville, Tenn.

Smith's company sells and services machinery that manufacturers use to encase their products in plastic blister packs, gift wraps and other kinds of packaging. The company employs clerical workers, salesmen and customer service technicians.

For service people, the company asks area technical schools to send it students with electronics skills as job applicants. First screening is done by telephone, and the likeliest candidates are invited in for an interview conducted by the service manager with Roy Smith or his brother Joe, the company president, sitting in.

"The service manager evaluates their skills," says Smith. "I try to evaluate what kind of employee they will make—their attitudes, how they answer, whether they have long-range plans that would fit our business or are just looking for a job. Remember, these people will deal directly with our customers."

"Finally, when we find the person we want to hire, we will look at his grades, talk to his instructors and check his background."

For clerical employees, the company runs an ad, contacts the local employment office and then follows the same procedure, with the office manager doing the interviewing and one of the partners sitting in. Of 50 applicants, 10 may be screened by phone and perhaps three will be invited in for an interview and typing test.

Such procedures for evaluating job applicants are probably typical of most small businesses. But many businesses also are turning to written tests, psychological evaluation, lie detectors, handwriting analysis and use of outside consultants as part of their employment screening and selection process.

Robert J. Solomon, associate professor of business administration at the College of William and Mary and a management consultant, believes businesses are increasingly interested in using quantitative selection procedures to hire the most effective people.

He says many companies gave up tests and measurements in the 1960s and '70s because they were afraid of incurring antidiscrimination suits. But he says that such fears are often misplaced and that it is the job of consultants like himself to educate companies in how to use tests legally. (See related story, page 45.)



How Companies Avoid Mistakes in Hiring

Sophisticated tests are joining other methods of screening job applicants.

By Harry Bacas

Solomon says companies must analyze a job to identify the performance issues they want to test for. Next they should choose selection procedures that are objective and as nearly as possible simulate the actual job.

The Commonwealth Edison Company in Chicago, for example, has used an "honesty" test for nine years as part of job application procedures at some divisions.

Robert Bassett, industrial relations

manager at the company's general office, says "discharges for theft and forgeries and malingering (which we consider to be theft of a day's pay) have dropped by a factor of 10 to 1" since the company started using the test.

Produced by P.O.S. Corporation of Chicago and sold nationally to about 2,000 clients, the test is a set of 40 statements that the applicant is asked to mark as true or false. The statements are sentences like "every normal

person is sometimes tempted to steal" and "if a person steals once he is likely to steal again" and "I get mad easily and then get over it soon."

The test, administered in the employer's personnel office, takes 15 minutes or less to complete (Bassett says most people can do it in 5 minutes.) Then the personnel officer phones P.O.S. on a toll-free line, reads the answers, and in about 2 minutes is given a score.

Scores are assigned five possible "risk" ratings—excellent, good, average, poor or serious. P.O.S. suggests that applicants rated as poor or serious risks not be hired unless there are other considerations.

There are no right or wrong answers, explains P.O.S. Vice President Mark C. Dunne, and the rating method, considered proprietary, was developed 10 years ago in conjunction with extensive polygraph testing. Dunne says the questionnaire "came out with 98 percent accuracy in finding the poor risks compared with the results of polygraph testing."

"We only claim to evaluate honesty," Dunne says, "but honesty includes many things, like faithful attendance, giving an honest job of work, not being late. All we want to do is identify those who are *not* honest. The test is just a tool, to be used along with all other screening and selection methods."

P.O.S. charges from \$8 to \$12.50 per test, depending on the quantity bought. The scoring phone call is free.

Another company that produces a test for honesty as part of a wide range of psychological tests for policemen, clerks, transit operators, managers and others is London House, Inc., of Park Ridge, Ill.

London House had sales of \$5.6 million last year for nine different sets of tests for business, "but 80 percent of our queries are about honesty," says spokesman Karla Kizzort. She says the honesty queries are greatest from food service companies, banks, and jewelry stores, supermarkets and other retailers.

SUCH CONCERN about honesty is not surprising. The American Management Associations has found that in one year in the 1970s employee pilferage amounted to \$7.5 billion. Its study showed that in 20 percent of the companies that went out of business that year, employee theft contributed to the failure. The Bank Administration Institute says 83.5 percent of bank losses are due to internal fraud.

London House employs several industrial and research psychologists on its staff of more than 100, but most of

its tests were developed and validated over a period of years at the University of Chicago Human Resource Center.

Scoring of its tests can be done by telephone, with written confirmation sent by mail, or by the employer, using guidelines for hand scoring. In some cases London House provides software to enable the client to produce evaluations on the client's own computer.

"Any test has to have two things,"



HRC, Inc., in Phoenix analyzes candidates' handwriting with computer research.

says Kizzort. "It has to be legal, meeting all the nondiscrimination guidelines of the Equal Employment Opportunity Commission. And it has to be thoroughly validated. That means it has to be shown to measure or predict what it says it measures or predicts."

Even the best test is only one tool to reveal a job applicant's aptitude, personality and potential.

"You really need a combination of testing and face-to-face interviews, because you have to see the live person to get your intuition and judgment to work," says William Terris, director of industrial psychology at DePaul University and head of London House's psychological services.

London House publishes a 60-minute test called Transit Operators Selection Inventory, which has been used by more than 100 transportation authorities to select new bus or train operators. It measures an applicant's experience and background, skills and abilities, and emotional health. The test also measures an applicant's potential for drug abuse and violent behavior.

The Washington Metropolitan Area Transit Authority began using the test after postaccident medical examinations showed a correlation between accidents and substance abuse by operators. It later made the test a regular part of screening for prospective bus operators, along with a check of employment, driving and court records.

MORE EXTENSIVE—and more expensive—procedures are involved in a London House battery of tests called STEP (System for Testing and Evaluation of Potential). It is used to evaluate potential managers. The tests contain from 790 to 1,000 questions.

The tests are scored by hand and cost up to \$250. The battery may take several days to administer. But it is still less time-consuming than evaluation by peer review and less expensive than sending people to the special personnel assessment centers maintained by some large corporations.

The STEP system begins with a job analysis to make sure the tests to be given measure the functions important to the jobs under review. Tests for bank officers will emphasize different characteristics than those for manufacturing supervisors.

After testing, an analyst draws a personality profile of each candidate and compares his skills and abilities with those required at different levels of a company's hierarchy. Sixteen performance dimensions from judgment and decision making to communications and coping with emergencies are scored.

The objective is to help an employer find the best match between a candidate's abilities and a job's important functions.

Says Kizzort: "The better a person fits a job, the longer he or she is likely to stay in it, and the more productive he or she will be during that time. In addition, employees who know that their company takes this kind of care in fitting people to jobs are more likely to feel loyalty toward their employer."

An entirely different kind of "testing" with the same aim—evaluating a certain person's suitability for a certain job—analyzes handwriting as an expression of personality. Sometimes called graphology or graphoanalysis, it has been used by an estimated 4,000 to 5,000 U.S. companies.

"Graphoanalysis is a science, not a gimmick like palmistry or astrology," says one practitioner, Sheila Kurtz, president of A New Slant, Inc., of New York. "Since handwriting is a direct projection of mental activities, it is next to impossible, no matter how hard the writer may try, to conceal or disguise



PHOTO: WILLIAM ABOURJILE

Robert J. Solomon, in a Norfolk shipyard, tells shipbuilders that a hiring test should closely simulate the job itself.

his or her mental traits by intentionally altering the writing. Handwriting is just as personal and distinctive as fingerprints."

Although handwriting analysis has a long history and is more widely practiced in Europe than here, there is little agreement on standards. Margaret Manna, who runs Mannagraphix in Irvington, N.Y., and studied at the International Graphoanalysis Society, tells clients to write 200 words or more on unruled paper. But Accu-Scan, a system developed by AEA Resources for Business in Wayne, Pa., supplies questionnaire forms that contain ruled lines. The system bases part of its analysis on whether the candidate writes on, above or below the lines.

A fourth company, Handwriting Research Corporation in Phoenix, is the first to computerize handwriting analysis. Formed 2½ years ago by three university-trained counselors and psychologists and a computer systems expert, HRC uses a data base drawn from more than 2,000 handwriting research

studies, the bulk of them European, published from 1922 to 1984.

With a candidate's writing sample in front of him, an HRC analyst answers 204 questions about it—the slant of the letters in degrees, for example, and to what extent the slant is consistent. The computer takes the answers and compares them with 249,000 combinations of answers in the data base, performing more than half a million calculations on each sample.

HRC's basic report, priced at \$50, plots candidates' personality traits on a matrix, showing each applicant's strengths and weaknesses in areas previously determined to be important for the job in question.

For \$70, the report also includes a telephoned verbal assessment by an HRC analyst of the candidate's intellect, social skills, integrity, emotional stability or behavior under stress.

For \$125, the report includes a 175-trait personality graph and a written summary of what it shows.

Soul S. Khalsa, one of HRC's princi-

pals, says the company's business has been largely in California and the Southwest but is widening. Clients have ranged from entertainment companies to security agencies and construction and development firms. He says companies' needs differ.

"In construction," he says, "energy level is important as well as drug or alcohol abuse tendencies and team-building skills. In hotel work, it's social skills, graciousness, warmth, rather than mental abilities. We evaluate the pros and cons and let the employer make the decision."

Khalsa says recent studies calling the validity of the polygraph into question have boosted the use of handwriting analysis.

One client, Xerox Corporation's computer services division in Los Angeles, used HRC analysis to rate telemarketing personnel. It found, says Ron Bell, a Xerox sales manager, that "the accuracy rate was 100 percent; the high scorers were our superstars, and the low scorers are no longer with us."

But many employers still hire without tests of any kind. William M. Hein, president of Creative Resources, Oklahoma City, which does retail catalog design and photography, says "we have been terribly happy with the people we've got. I have let only two people go for lack of ability."

He says his staff artists or photographers judge an applicant's portfolio of pictures for technical competence and he himself evaluates attitude and checks references.

CHECKING references is more important than some employers think. A study by Opinion Research Corporation for Ward Howell International, an executive search firm, says 26 percent of companies it surveyed had hired people in the past year whose resumes turned out to be inflated or inaccurate. Gilbert Dwyer, president of Ward Howell, says employers should check "not just those references the applicant tells you to call, but should dig, as we do, into places he has worked, his peers, friends, banks, lawyers."

Ronald Pilenzo, president of the American Society for Personnel Administration, is leery of tests unless they are thoroughly validated and have been proved relevant to a firm's job situation.

"If you're smart enough to interview a candidate properly, to ask the right questions, to check the person's track record," he says, "you shouldn't need a test to tell you whom to hire."



To order reprints of this article, see page 73.

As Easy as PIE

Because hiring any new employee is important to a company's success, the process of selection should be methodical, say two experts.

Carol Schneider-Jenkins, manager of human resources at Oximetrix, Inc., Mountain View, Calif., and Norma Carr-Ruffino, management professor at San Francisco State University, suggest using the PIE method.

PIE (prepare, interview, evaluate) was developed by the American Electronics Association. Using a separate PIE form at each step, you first prepare for an interview by de-

veloping a profile of the qualities of a successful performer in the job.

Next, you conduct the interview, drawing information from the candidate about his qualifications and then telling him about the job.

Finally, you evaluate each candidate by comparing your rational and intuitive impressions with the profile of the successful performer.

Copies of the three PIE forms are available by sending a self-addressed stamped envelope to PIE Forms, Administrative Management Society, 2360 Maryland Road, Willow Grove, Pa. 19090.

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Bank Decontrol: Out of Control?

Here is why "confusion abounds" in a process that vitally affects all business people.



Empire of America Federal Savings Association's Moneyplex Centers (see box on page 42) are financial supermarkets, offering banking, real estate, insurance and investment services.

A 19TH CENTURY statesman once lamented that there were only two people in the world who could explain international finance to him, but they did not agree with each other.

American financial executives are in a similar situation today on an equally complicated subject: deregulation of the financial industry. Only two members of Congress have the power to initiate significant action in that area—but they do not agree with each other.

The philosophical clash between Sen. Jake Garn (R-Utah) and Rep. Fernand St Germain (D-R.I.), banking committee chairmen in their respective houses, is among the elements in one of the most complex and far-reaching controversies in Washington today.

Complex? What other term would describe an issue that uses such terms as "nondepository institution," "the South Dakota loophole" and "international class bank holding companies"; an issue in which Sears, Roebuck & Company owns "a nonbank bank," and initialed agencies like FHLBB, FSLIC and FDIC abound?

It is also an issue that not only has split the congressional chieftains involved, but has also produced sharp conflicts among bank regulators and within the financial industry itself.

One of the best-known regulators, Federal Reserve Board Chairman Paul Volcker, sums up the status of financial deregulation activities at this point: "Confusion abounds."

The outcome could be the most significant change in the nation's financial structure since tight federal controls were imposed because of a wave of bank failures that peaked in the early 1930s.

Pending questions involve, in varying degree, the scope of competitive relationships among banks, savings and loan institutions, and the insurance, securities, real estate and related industries. A key issue is the extent to which banks should be permitted to operate beyond their home states.

For business people generally, the outcome of the financial deregulation controversy will affect the availability and cost of the financial services they

must have to run their businesses and to meet personal and family needs.

Key questions being raised in the dispute include:

- Should banks be allowed to operate freely across state lines, even throughout the country if they so choose? What effect would this intensified competition have on local and statewide banks?
- Should banks be permitted to move into such additional lines of business as insurance, real estate development and sale of securities?
- Should insurance and brokerage firms be permitted to go into banking? If so, to what extent?
- Should there be federal regulation of consumer aspects of financial services, such as the size of the fees that can be charged and the length of time a bank can hold a check before the depositor can draw against it?
- Should the present system of deposit insurance be overhauled in a manner that differentiates between high-risk and low-risk institutions, with the price of that insurance set accordingly?

These issues were pushed into the

congressional forum by the hardly unprecedented failure of a regulatory apparatus to keep pace with events in the area it was created to regulate.

For the past half century, federal banking regulation has been geared to stifle the competitive forces Congress blamed for bringing the banking system to the verge of collapse after the crash of 1929.

Alan Gart, a veteran financial industry executive who now teaches and consults on finance, describes what happened in his book, *The Insider's Guide to the Financial Services Revolution*:

"An elaborate framework of federal and state regulations was passed in the wake of the Great Depression to establish and maintain a system of specialized financial institutions. These institutions were differentiated by product lines and markets. Market entry was restricted, geographical location and product lines were limited, and the prices of services offered were in some cases controlled. . . . There was also a restriction on competition, as security dealers and investment firms were allowed to provide services which other financial institutions could not offer, and vice versa."

But that arrangement was unable to accommodate the changes in the nation's financial services needs, changes that began with the post-World War II economic boom and continue today.

POPULATION SHIFTS including the growth of suburban America and the mass migration to the sun belt stimulated banks to find ways to expand geographically. Credit crunches beginning in the mid-1960s drove depositors out from under the restraints of Regulation Q which set ceilings on interest rates, in search of higher yields. One result was the explosive growth of money market funds.

As interest rates continued to soar, and as technology made it possible to provide financial services without heavy investments in bricks and mortar, companies in other fields began looking to the financial industry as a new profit center. The retail giant Sears, Roebuck & Company, with its securities, real estate, banking and insurance operations, is a leading example. (The Sears banking entities do not make commercial loans, however, so they are "nonbank banks" in the language of banking law.)

Banks, highly regulated, were angered at the ease with which outsiders could enter their field, and they sought congressional authority to expand into other lines themselves. A 1980 deregulation law provided for phasing out interest rate ceilings, but it did not give bankers the room they had sought to meet the new competition.

As a result, bankers sought to achieve their goals in other ways. Paul Volcker describes the current situation:

"Banks and bank holding companies, and thrifts and their service corporations and holding companies, are expanding interstate and into new product lines, including investment banking, real estate development and insurance



Chemical Bank Chairman Walter Shipley disapproves of limited-service banks.



Citicorp's reach extends across many state lines. This center is located in Maryland.

activities, whenever and wherever they can find room through new interpretations of federal law or new state law.

"Nonbank entities—securities firms, insurance companies and commercial and retail organizations—are making inroads where they can into the banks' traditional franchise in deposit taking and payments system. In the process, long established policies set by the Congress are breaking down. . . . Confusion abounds. Equity is lost."

His reference to interstate banking

via "new interpretations of federal law" spotlights the focal point of the current congressional impasse on financial deregulation, the "nonbank bank."

Federal law defines those banks barred from interstate operations as institutions that accept demand deposits, such as those for checking accounts, and make commercial loans. That "and" is significant, because it has created a loophole big enough for more than 200 new types of banks to walk through.

A sharp-eyed banker realized that an institution that accepted demand deposits or made loans was not covered by the law and thus could operate across state lines. The resulting facilities came to be known as "nonbank" or limited-service banks.

DEMANDS THAT the loophole be closed have grown in Congress over the five years that the comptroller of the currency has been granting charters to such banks.

St Germain and Garn agree it should be closed, but their intense disagreement on broader issues of financial deregulation has blocked action.

Garn, who favors deregulation, wants to accompany loophole closing with authority for banks to expand into securities, real estate development, insurance and other financial areas from which they have long been barred. St Germain wants to limit immediate action to closing the loophole, and he wants to move far more slowly, if at all, on the broader issues. (Commenting at a recent hearing on the proposal that banks be allowed to get into the insurance business, he asserted: "It's not going to happen.")

Julie Black, a House Banking Committee aide, says St Germain believes that "it's an emergency situation, since nonbank charters are being granted every day. [He] wants time to study other issues, like expanded powers, since [Congress] would be dismantling laws in existence for a long time."

But Danny Wall, majority counsel to the Senate Banking Committee, says that is an unrealistic attitude. "It's a quid pro quo game," he explains. "Limited-service bank operators are not going to graciously accept their closing unless they get something in return." For example, he says, banks might be willing to yield on the nonbank option in return for the promise of nationwide banking authority in the future.

Some congressional and industry experts on the issue see the possibility that two laws up for renewal this October could serve as a vehicle for dealing

HOW MUCH HIGHER CAN MEDICAL COSTS GO?



In recent years, over 10% of the entire Gross National Product was spent on health care.

That's over \$355 billion annually.

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CIGNA companies also have helped save their clients \$8.50 for every \$1 spent by instituting second opinion surgery programs. In addition,

there are benefit plans that reward the use of same day surgery and care at home.

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To back up our belief that everyone has to pitch in to help keep medical costs down, CIGNA has just finished awarding nearly \$1 million in grants. These grants enable local coalitions of businesses, civic leaders, and health care providers to pursue solutions to health cost problems.

If you want to know more about what CIGNA companies can do to contain your costs, please write to CIGNA Corporation, Dept. R1, One Logan Square, Philadelphia, PA 19103.

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The CIGNA logo consists of the word "CIGNA" in white, bold, sans-serif capital letters, centered within a dark blue rectangular box.

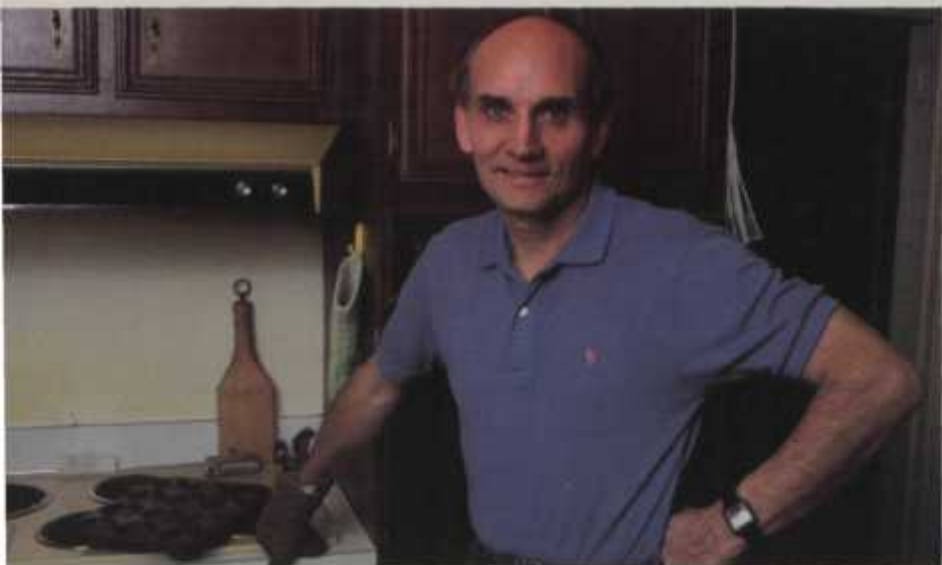


PHOTO: ROBERT SHERROW—UPI/PHOTO

Whether or not Congress decides to give the nod to further banking deregulation depends on Sen. Jake Garn (left), who wants a recipe with more deregulation, and Rep. Fernand St Germain (below), who prefers more regulation.



PHOTO: MARK REHSTEN—UPI/PHOTO

with the loophole and, possibly, taking broader action.

One law permits out-of-state banks or other financial institutions to acquire endangered thrift institutions. So does a program that has enabled federal authorities to shore up several endangered thrifts.

The nonbank loophole and the thrift-rescue law are related. Edwin Gray, chairman of the Federal Home Loan Bank Board, which regulates the thrift industry, says the surge in the number of limited-service banks "has effectively dried up the pool of serious bidders"

for ailing thrifts. Prior to the limited-service option, the acquisition of an endangered savings and loan institution was the only way many banks could cross state lines. Closing the limited-service loophole would restore that emphasis.

But interstate operations via the threatened thrift route have not disappeared by any means. Chemical Bank, of New York City, has offered to take over Ohio's Home State Savings Bank, which closed in that state's thrift-institution crisis triggered by the collapse of E.S.M. Government Securities, Inc.

Chemical's plan calls for converting Home State to a federally insured bank.

The proposal spotlights what has been the most controversial aspect of interstate banking—opposition of in-state institutions to outsiders' entry into their markets. The Ohio Bankers Association has termed the Chemical proposal "a pure end run on interstate banking."

Fewer issues, in fact, offer more potential for conflict between sectors of the same industry. Enter the "South Dakota loophole." One law passed in that state lets bank holding companies

Spreading Financial Networks

While the debate over further decontrol of banking continues, many organizations are already well down the road toward the financial services industry of the future.

Some are trying a supermarket approach, others are offering specialized services and customer conveniences.

For example, Empire of America Federal Savings Association, based in Buffalo, has established 19 Moneyplex financial centers in four states. These centers provide banking, real estate, insurance and investment services through Empire subsidiaries.

In addition to on-site specialists in each of those fields, the Moneyplex centers have computer terminals and other telecommunications facilities that give customers information on services offered and current data on securities markets.

Plans call for adding information services that will include a regional map showing the location of Empire's automatic teller machines,

weather forecasts, transportation schedules and retail outlets.

Empire of America, which has assets of \$7.3 billion, has established the Moneyplex centers in its own branches and recently opened three others in Montgomery Ward stores in Houston. There are 10 centers in New York State, three in Florida, five in Texas and one in Chicago.

The establishment of the centers in Montgomery Ward outlets follows a pattern set by Sears, Roebuck & Company's financial centers. Many of Sears' stores have centers offering the services of its subsidiaries in insurance, lending, savings, investments and real estate.

Other examples of financial industry innovation include Tradelink of Norwest Bank of Minneapolis, a service to customers in international trade. The bank's computer system contains data on customers' export capabilities, and the bank monitors trade opportunities in more than 100 countries on a daily basis. Tradelink can then match customers with prod-

uct or service requirements that develop overseas.

First National Bank of Deerfield, Ill., is offering a service geared to the technological era—vault storage for customers' computer disks and tapes.

Banks have also gone heavily into technology directly, with automatic teller machines the development most visible to customers. But the machines have not been as successful as bankers would like, industry officials report.

The Bank Administration Institute reports that a transaction via a machine costs a bank about 21 cents, while the cost goes to 52 cents with a human teller. At present, industry surveys show, only one out of three customers uses the machines. Banks are now trying a wide range of promotions to increase use. In one, Pittsburgh National Bank mailed to each of tens of thousands of customers three \$2 checks that could be deposited only through automatic teller machines.

"I can't believe we came to an agreement so quickly. It was simply a matter of getting all these countries together in one room, so to speak."



"Listen, if we could get together like this more often, we'd really have a leg up on the competition."

"...exactly what I was thinking."



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from other states acquire or establish a state-chartered bank. Another allows state-chartered banks to own an insurance company outside the state.

Citicorp, of New York, announced after the changes that it planned to acquire a South Dakota bank and go into the insurance business. The giant bank came under heavy fire from the insurance industry—another indicator of the competitive factors involved in financial deregulation.

CITICORP ALSO HAS established a network of limited-service banks that take deposits in 12 states; owns a full-service bank in Maine; and operates 281 consumer loan offices in 29 states. And the same bank has just won approval of the Maryland legislature to open 20 full-service banks in that state over the next two years. State approval was contingent on a Citicorp promise to establish in Maryland a credit-card processing center that would employ 1,000.

Some banks have managed to cross state lines under a provision of federal law that allows individual states to permit outside banks to operate within their borders. Historically, states were reluctant to allow outsiders to come in and compete with home-state institutions, but that inhibition is weakening

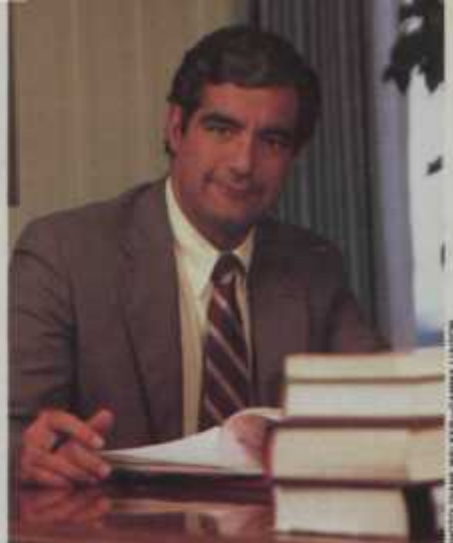
in many regions as states see economic benefits to be gained from welcoming companies in the financial services industries, as South Dakota and Maryland did.

Although the law against interstate banking has been breached through the state-option provision and the limited-service bank approach, most industry leaders think the issue must still be met head-on by Congress.

Chairman Walter Shipley of Chemical Bank, which has established limited-service banks in states beyond its New York base, says that course is not the final answer.

On the contrary, he adds, "it is genuinely the worst of all the available alternatives, as it results in the addition of banks to a country whose markets are widely recognized to be sufficiently banked already."

Along with the various proposals that have been on the table for several years, Congress will be considering proposals expected from the Reagan administration. They will be based chiefly on recently announced recommendations of a panel headed by Vice President George Bush. A key proposal would create a Federal Banking Agency to replace the office of the comptroller of the currency as regulator of na-



FDIC Chairman William Isaac: a proponent of eliminating regulatory barriers.

tional banks and their holding companies.

The Federal Reserve Board would retain a role in regulation, however, and its jurisdiction would include "international class bank holding companies," which would be those companies with worldwide operations. That category would include, in effect, the largest of the bank holding companies based in this country.

The administration's proposals could help to end the arguments among financial regulators over how deregulation should proceed, and that in turn could make it easier for Congress to resolve the issue.

Says William Isaac, chairman of the Federal Deposit Insurance Corporation and an advocate of dismantling regulatory barriers: "The philosophical disagreements among the regulators clearly are impeding progress on deregulation in Congress, which is getting too many conflicting and confusing signals from us."

BUT BECAUSE OF the vast powers the congressional system gives to committee chairman, all of the parties to the debate over financial controls—the White House, the financial industry and its many components, consumer groups—must await a resolution of the fundamental conflict between Garn and St Germain.

At the same time, experts say that, despite the many changes under way in the absence of congressional action, the basic deregulation problems can be resolved only by congressional action.

Voleker puts it this way: "The sense of confusion in banking and financial regulation stems largely from basic economic and technological change that has outmoded much of the substantive law that the various agencies must interpret and administer. No reshuffling of regulatory authorities will be satisfactory without resolving those substantive matters." 13



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The Road to Court Is Paved With Good Intentions

To avoid suits over hiring practices, employers must follow strict guidelines.

By Peter M. Panken

LAWS AND REGULATIONS of federal, state and local governments contain voluminous detail on legal procedures employers must observe to ensure that their hiring practices are not discriminatory.

Everyone making a hiring decision today must realize that it might wind up being second-guessed by a judge or jury in an antidiscrimination suit.

Obviously, therefore, those involved in the screening and hiring process at a company should be aware of the relevant laws and how to make sure that rejected applicants are not given grounds for lawsuits.

At the federal level such laws protect job applicants and, in some cases, employees from discrimination based on age (if they are between 40 and 70), color, national origin, pregnancy, race, religion and gender. As a result, members of designated minority groups, women and certain categories of the middle-aged and elderly are given special protections.

In addition, companies holding contracts to provide goods or services to the federal government may not discriminate against Vietnam veterans, the physically handicapped and, in some cases, the mentally handicapped. Larger federal contractors are required to go further, to scrutinize their work forces to make sure there is no "underutilization" of women and members of minority groups, and to establish a fixed timetable for eliminating any such problems.

Additional requirements are found in many states and cities. Illinois law makes it illegal to use a dishonorable discharge from military service as a

reason for not hiring an individual. The District of Columbia bars discrimination on the basis of "sexual orientation, family responsibilities, physical handicap or political affiliation."

In the federal courts, an unsuccessful job applicant seeking redress must assume the responsibility of proving the rejection was based either on illegal discrimination or on grounds that, while apparently legal, still tended to eliminate members of a protected class to a disproportionate extent.

In the first instance, the plaintiff must prove that the employer discriminated intentionally on grounds of age, sex, race, religion or other factors.

In the second, the plaintiff must prove that, while the employer intended to use a legal basis for a hiring decision—one not based on race, sex or other prohibited category—the end result was to eliminate substantial numbers of a protected class without sufficient, offsetting business considerations.

The Supreme Court has established a complex process that plaintiffs must follow in trying to prove discrimination.

A rejected applicant belonging to a protected class must prove that he or she was qualified for the job but was rejected in favor of someone not a member of a protected class or that the job has gone unfilled.

In response to a complaint, an employer must offer justification for a hiring decision, which then gives the plaintiff an opening to argue that the reason was a pretext for illegal discrimination.

For example, it might be shown in court that an employer's requirement of a college degree as a qualification for a certain job adversely affects a minority group with a relatively low ratio of college graduates and favors a nonprotected group with a high ratio.

Stakes can be high. In addition to legal expenses, an employer losing a suit could face a court order to hire the plaintiff, pay all accumulated back wages and—where willful discrimination because of age is proved—pay double damages.

SO AN INTERVIEWER who made a hiring recommendation must be able to articulate the factors that shaped the decision. If the decision is challenged by a rejected applicant, the company must offer persuasive justification for its choice.

And everything an interviewer has written, said, or is quoted as having said can be probed in a lawsuit for evidence that contradicts the proffered justification or reveals even a glimmer of illegal discriminatory intent.

How does an employer head off prob-

Everything a job interviewer has written or said can be probed in a lawsuit.

PETER M. PANKEN, a partner in the New York law firm of Parker Chapin Flattau & Klimpl, specializes in representing management in labor and employment law.

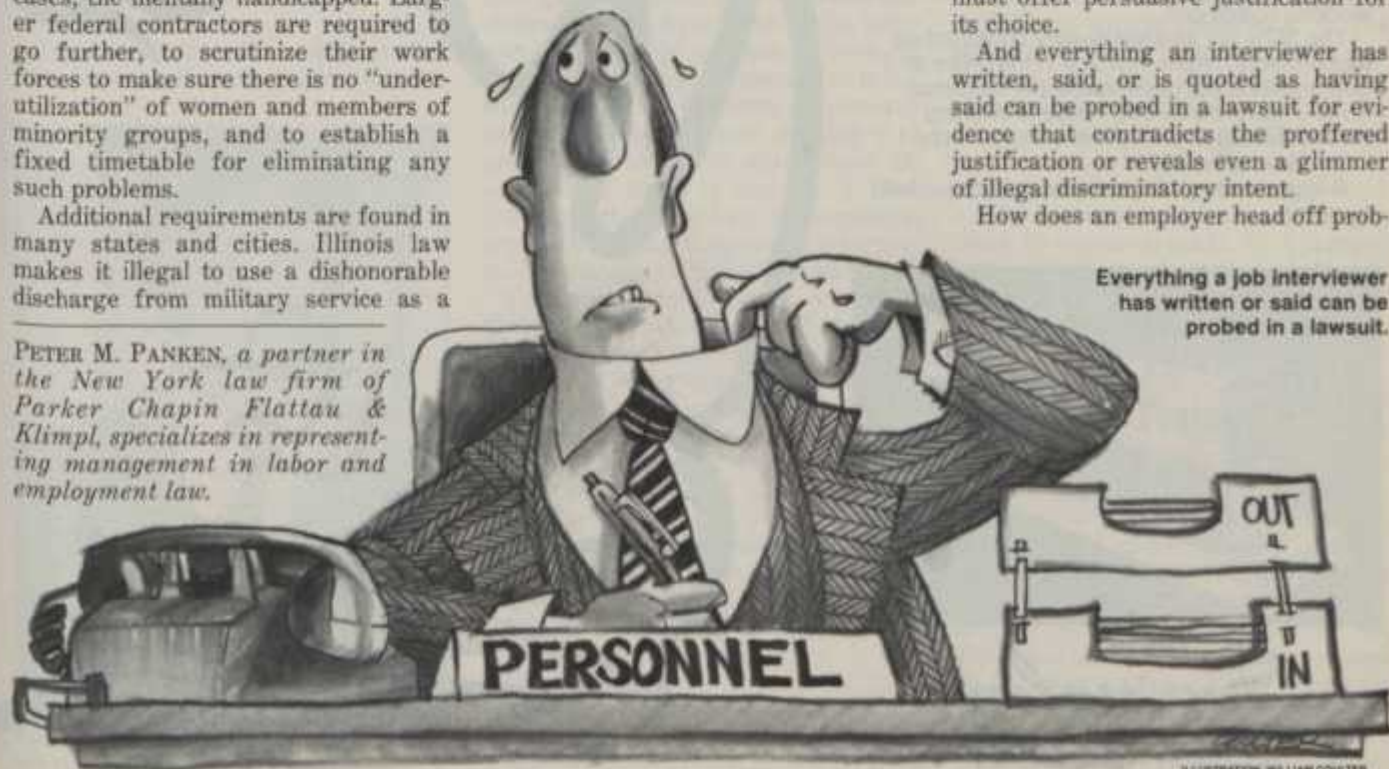


ILLUSTRATION: WILLIAM COULTER

lems related to accusations of hiring discrimination?

Remember that being fair, well-intentioned and making hiring decisions in an unbiased manner may not be enough to prevent costly lawsuits.

You might still wind up having to convince a judge or jury of your good intentions while being grilled by a relentless attorney who is being paid to make you look bad.

Here are some steps you can take to protect yourself:

1. Document your company's compliance posture in detail. Issue to all interviewers memos stating that your company hires only on the basis of relevant considerations. Remember that each piece of paper dealing with hiring is a potential trial exhibit that can buttress your case or, if you are not careful, work against you.

2. Avoid irrelevant questions during an interview. Any question asked will be assumed to reflect a selection criterion. Questions unrelated to business may be viewed as evidence of hidden illegal motivation. For example, inquiring when the applicant graduated from school is usually irrelevant to job performance, but often reveals the applicant's age.

3. Do not offer applicants reasons

of rejection unless, and until, you are forced to. Many cases are lost because a harried interviewer casually gives a rejected job-seeker a reason for rejection without taking time to think the implications through. You are choosing those you think are the cream of the applicants, so you can honestly say: "We selected those we thought would work out best."

4. Do not tell applicants they were, or were not, qualified for the job. State only that, in your opinion, the ones selected had better qualifications. Otherwise, such explanations—everything you said or wrote—can be used against you. Excluding applicants on the basis of a stated qualification leaves you vulnerable if a judge does not agree that there is a valid business reason for using that criterion.

5. Apply prerequisites consistently and even-handedly. Do not offer in-house training to young, nonminority or male "go-getters" while requiring others to undergo the same training before they are hired.

6. Make applicants specify in their applications exactly the type of job they are seeking, and then have them document their own qualifications for that job. That way, they select themselves out of the pool for other jobs, and you

are not responsible for considering skills they have not revealed.

7. Beware of making casual, short-hand comments on applications or notes during an interview. Interviewer's notations like "nice girl" or "mature" on rejected applications have been used in court to support a judgment of age or sex discrimination.

8. Review job descriptions. Be sure they are free of irrelevant criteria that act to exclude members of protected classes.

9. Be consistent. Do not bend the rules for some and not for others—especially where minorities and women are not the beneficiaries.

10. Actions speak louder than words. Analyze your hiring practices by race, sex and even age. If you are rejecting certain minorities, or women, at a higher rate than white males, you may be courting an expensive lawsuit. You may need expert legal advice, so you can make your hiring practice analysis effectively.

The best way to protect yourself against antidiscrimination suits is to take defensive action before they occur.



To order reprints of this article, see page 73.

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The Shape of Sales To Come

By Henry Eason

American, Japanese and European multinational corporations might want to think about locating their home offices in Anchorage, says Kenichi Ohmae, author of *Triad Power: The Coming Shape of Global Competition*.

In his book, the managing director of McKinsey & Company's Tokyo office says companies with worldwide markets should at least adopt an "Anchorage mentality." The Alaska city is equidistant from Tokyo, New York and Düsseldorf—three cities of the "Triad" of Europe, Japan and the United States. That is crucial to Ohmae's point.

Trading nations in the Triad must cast off notions of economic nationalism and realize, says Ohmae, that they are so highly interdependent as producers and consumers that protectionist reactions to trade friction would be destructive.

"There are 600 million consumers in the Triad, with increasingly similar needs and preferences," he says. "Gucci bags, Sony Walkmans and McDonald's hamburger stands are seen on the streets of Tokyo, London, Paris and New York. People want the best product for the best price from anywhere in the world. That is the reason for increasing transnational trade, and hence trade friction."

Triad companies must adapt production, finance and marketing to this real-

ity, Ohmae says; they must think more in terms of selling to their core market and, perhaps, less of maintaining an expensive and farther-flung global sales effort. And producing primarily for a domestic market, Ohmae says, is a surefire route to extinction.

Ohmae is a consultant to major multinationals throughout the Triad. *Triad Power* is the result of witnessing many successes and failures.

"The shift from labor-intensive to capital-intensive operations demands deep and immediate market penetration [throughout the Triad] both to ensure the maximum economies of scale needed to defray heavy initial investment and to sustain heavy outlays necessary for continued production process innovation," he says.

"A dramatic reduction in labor content shatters the mirage of low-cost labor in developing countries," he says. The advantage gained by using cheap labor in these countries is offset by the costs of transporting critical components to them and the costs of insuring and transporting finished products."

According to his theory, economic forces beyond the control of multinationals are forcing them to think Triad. That means automation, robots and machining centers have reduced the labor cost in assembly operations from 25 percent to less than 10 percent at many advanced firms. The cost of research and development is now so high that global economies of scale must be achieved in order to pay for it. And finally, high technology achievements are so short-lived that no single company can control critical industries.

Companies should strive for more global decentralization, says Ohmae.

"What these major developments point to is that global companies have to put good people close to the action and respect their judgment," he explains. "The role of headquarters is that of a facilitator of communications between these people, rather than its traditional one of controller."

Already, he observes, many multinationals have strong ownership positions throughout the Triad. To compete they must become "true insiders."

Ohmae concludes:

"The Triad is being shaped. It's not speculation. It is a reality. This reality is blurred by neoprotectionist overtones

reported in every day's news and the emotional and hysterical perspectives promoted by voter-sensitive politicians and excuse-seeking corporate executives."

Missing a Chance In Saudi Arabia

Saudi Arabia, which plowed oil profits into the creation of an industrial base, is now a maturing economy with a strong interest in attracting foreign partners to carry it closer to being a fully diversified industrial power.

Investment opportunities abound for firms willing to enter joint venture agreements with Saudis in numerous industrial and service fields. But American companies have stiff competition. Recently, Japan passed the United States in export sales to the kingdom.

Abdulrahman Al-Zamil, deputy minister of commerce, explained during an appearance in Washington why America has fallen behind.

The strong dollar makes U.S. goods and services more expensive to Saudis than their Japanese equivalents, he said, and "American companies do not support their representatives overseas as well as other countries do. Also, American domestic market demand has made many small and medium-sized companies complacent in the past, and they lack export experience and orientation."

Al-Zamil urged his Washington audience to learn more from the Japanese.

"Have a single distributor in the country and work cooperatively in promotions, supplies, financing policies, aggressive marketing policies. Let business people run your operations—not lawyers and nonexpert boards."

Saudi Arabia, he says, very much wants American technology to help it reach its economic goals. As a partner, it can offer low-cost, skilled labor, easy access to raw materials and a burgeoning Middle Eastern market nearby.

Slippage In Services Trade

Although the United States incurred a \$123 billion merchandise trade deficit last year, it racked up a \$17.6 billion surplus in the sale of financial services, engineering, travel and numerous other "invisibles." Still, that was down from a \$28.1 billion services surplus in 1983. The trend is worsening, partly because of increasing protectionist measures against Yankee services in the developing world.

Some countries ban American adver-



Kenichi Ohmae: Trade interdependence will reshape management goals.

tising, insurance, mass market retail and many other services in an attempt to foster their own companies in these fields. The United States, along with other service surplus exporters in the developed world, wants new international rules lowering trade barriers to be studied by the General Agreement on Tariffs and Trade, an organization that acts as a trade referee.

Deputy Trade Ambassador Michael Smith says less developed countries are in the grip of a "bogeyman theory." Says Smith: "They think we're trying to export economic imperialism."

Far from it. In fact, Smith says, some American business people say freer trade in services could be a boon to developing nations. Already, he observes, countries like Mexico, Brazil, South Korea, Argentina and Singapore are rapidly entering the services export market.

Jose Artur Denot Medeiros, minister-counselor for economic and commercial affairs at Brazil's embassy in Washington, says his government is far from ready to include services trade as a topic for discussion at next year's global trading talks.

"The services issue is being raised by the advanced countries, so there is the perception in less developed countries that this would benefit the developed nations," Denot says. "The fears may be irrational, but they exist."

Stability And Growth in Turkey

Turkey is steadily climbing out of and leaving behind its onetime image of political instability and high inflation. Its economy is outpacing growth in most of Europe and becoming a lucrative market for American goods. Last

year, the United States sold \$1.2 billion in Turkey and bought \$463 million in Turkish goods.

Prime Minister Turgut Ozal, meeting with business people in April at the U.S. Chamber of Commerce, said he and his Motherland Party have "launched the Turkish economy on the free market path. We have made free enterprise and private initiative the main engines of economic growth."

Ozal added: "At the same time that we opened our domestic markets to foreign competition, we drastically reduced regulatory obstacles to the export of Turkish goods and services."

"Our political stability, strengthened by the revitalization of the democratic process in our recent elections, our location at the crossroads of the Western and Islamic worlds, our emphasis on free enterprise and private initiative, and our government's determination to create the infrastructure and friendly climate needed for economic cooperation all indicate that Turkey's economic future is bright."

Says Ozal: "We are demolishing the protectionist walls which cloistered Turkey for 50 years. We have removed almost all protective quotas and restrictions on imports. Now, all commodities can be imported into Turkey freely on payment of custom taxes, which are minimal for industrial raw materials and intermediate goods." In exchange, Ozal wants the United States to reduce textile and other barriers.

While in Washington, Ozal blessed a memorandum of understanding between the U.S. Chamber and Turkey's business community. The outgrowth, a Turkey-U.S. Business Council, promises more American investment in Turkey and greater economic linkages in the private sector.

Trade Notes: Perle's Wisdom; Export Aid

• Richard Perle, assistant Defense secretary for international security policy, is often viewed as American business' No. 1 stumbling block in the export of sophisticated technology. Perle, a guardian of defense-oriented high technology, says many proposed sales would give the Soviets too much American know-how that could be used in their military machine.

Perle told American business people at a recent U.S. Chamber breakfast meeting that companies should insist more on the efficient working of the government's export licensing procedures and less on fighting controls in "knee-jerk" fashion.

A recent Defense Department-commissioned study showed, he says, that some 800 export licenses denied American firms would have—if approved—saved the Soviets \$14 billion in research and development and cost the American government another \$13 billion in weapon systems modifications to counteract what the Soviet military gained.

• "A return to protectionism would be a disaster for our country," says John Danforth (R-Mo.), chairman of the Senate's trade subcommittee. "It would threaten the jobs of one sixth of our work force, and it would destroy our farmers. It would increase consumer prices and reduce consumer choice. It would ruin our economy and the economies of our trading partners."

But, Danforth told the National Press Club, enforcing international agreements and insisting that unfair trade barriers be removed is not protectionism.

Unfair trade practices, combined with the "bloated" dollar, account for most of the United States' expected \$130-billion-plus deficit this year, he says.

"Therefore, we must proceed on two tracks at the same time. We must deal with exchange rates and we must remove unfair barriers to American exports."

• The Commerce Department and the Federal Bar Association have begun a joint program to give free legal advice to small companies wanting to export. Says Kenn George, director of the Commerce Department's U.S. and Foreign Commercial Service: "This program should encourage new-to-export firms to take that first step to become an export-focused company."

Interested businesses should contact district offices of the US&FCS or their area Commerce Department office. □



Istanbul is the center of a Turkish economy that is opening its markets to U.S. firms.

An International Viewpoint

The Chamber's new chairman says he is an "automobile mechanic," but he is much more.

HE HAS NEVER taken a course in business management. But he owns and runs a collection of automobile dealerships that generates more than \$140 million in annual sales.

He has not had the opportunity (though he would have liked one) to become a baseball fan. Yet he is spearheading efforts to bring major league baseball to his community, Tampa.

He is soft-spoken and self-effacing, and he laughs at himself with a winning frequency, often calling himself an "automobile mechanic." Yet his capacity for leadership is such that he has been singled out to head a number of community and business sector endeavors and has served on boards of more than a dozen local and national organizations.

He is Frank L. Morsani, who on April 29 became the 1985-86 chairman of the U.S. Chamber of Commerce. He succeeded Van P. Smith, chairman and president of Ontario Corporation, headquartered in Muncie, Ind.

Morsani is chairman, president and principal owner of Tampa-based Precision Enterprises, Inc., a holding company that consists primarily of seven dealerships—five in Florida and two, run by his brother Tim, in Nevada. The makes he sells are Chrysler, Dodge, Plymouth, Ford, Mercury, Mercedes-Benz, Isuzu, Saab, Peugeot and Toyota. Precision Enterprises also operates an auto leasing firm, Precision Leasing, Inc.

What does Morsani drive? "Generally, a Mercedes," he answers with a grin. Mercedes-Benz was one of the makes with which he started. He bought his first two dealerships in 1971 after spending 14 years in the wholesale and retail auto business. And because Mercedes cars were among his first, he says with affection, "they're like your children."

U.S. Chamber members can expect their new chairman, who is deeply involved in bringing foreign investment to Tampa, to show a special interest in international trade.

"We have to figure out how we can internationalize the total business community, because we are living in an international society," says Morsani. He

PHOTO: DAVID WOODRILL



Chief of a Tampa firm that sells both imported and domestic automobiles, Frank Morsani advocates greater small business involvement in international trade.

would like to encourage more small and medium-sized businesses to get into exporting. If more businesses are involved in international trade, he says, the trade deficit can be reduced.

"American business should be the leader in international competition, not the follower," he says.

Shouldn't Americans feel guilty driving foreign cars? Morsani says he is frequently asked that question. He reminds his questioners that, when the Germans and Japanese entered the U.S. market, they did it with small cars—products that U.S. manufacturers generally did not choose to make.

"The other side of that coin also is that people forget how large General Motors and Ford are in Europe," he says. "Ford is the No. 1-selling car in Great Britain."

As a dealer who sells both foreign and domestic makes, he says, "I don't really think there's a conflict when you look at the whole business community on an international level."

Last October Morsani joined 75 business people on a trade mission to Dus-

seldorf, Brussels and London under the aegis of the Super Task Force to Internationalize the Tampa Bay Area in the '80s, a consortium of the chambers of commerce of Florida's west coast. In May he led another Super Task Force group to Toronto and Montreal on a mission aimed at spurring the Tampa Bay area's share of Canadian trade, investment and tourism.

HIS INVOLVEMENT in the international scene is not new. "He was one of the very first people in Florida to recognize the importance of international trade," says Parke Wright III, chairman of the Super Task Force and executive vice president of Lykes Brothers, Inc., a diversified Tampa-based company. Wright describes Morsani as a "visionary" who was "building bridges to peer groups overseas, across both the Pacific and the Atlantic, long before the rest of us really realized there was a big international game out there."

Wright remembers that the first international social event he went to in

Tampa was a gathering for a dozen or so Japanese businessmen at the Morsani home 15 years ago.

As a Toyota dealer, Morsani has traveled extensively in Japan. In 1975 the Florida Department of Commerce sent him on a trade mission to Japan and Hong Kong. In 1977 the International Executive Service Corps, a nonprofit organization that supplies executives to developing countries to assist businesses, assigned him to Panama to work with an automobile dealership there.

And pleasure trips have taken him and wife Carol to Egypt, Israel, Greece, France, Switzerland and Austria.

In 1971 he borrowed nearly a quarter of a million dollars from a bank and from family and friends and became his own boss, buying University Toyota and a Mercedes-Benz dealership called Precision Motorcars, both in Tampa. His work force was 35 that year; now it ranges from 350 to 400.

That job growth pleases Morsani, who says his mother would have liked her three sons and one daughter to become missionaries.

"I think I am a missionary in the business world," he says. His parents instilled in him the belief that "you could be both a business person and a

and little venture capital available in Florida, he says, and "I just felt there was a need."

He brought together 10 like-minded investors and \$2 million in capital. "We felt that we had all been able to drink from the cup and that we ought to put something together that would be beneficial for others to get started."

So far, First Tampa has backed a computer software company, a couple of small manufacturers and a marketer of darts. Long a favorite of British pub patrons, darts are catching on in the United States, says Morsani. "But you couldn't go to a bank and borrow money for a dart business. They would think you were crazy."

Morsani is also president of the Tampa Bay Baseball Group, Inc., which is actively seeking a major league baseball team for the area. An effort to bring the Minnesota Twins to Tampa fell through last year.

He thinks the game would be good for the community.

"This market is not being served by the premier sport of our nation," says Morsani, pointing out that Tampa's economy is larger than nearly half of the 26 markets that already have major league baseball clubs.

He says, "Tampa has the opportunity to be one of the leading cities in the United States in the 21st century, and I just feel that the time has come to be a major league city."



In his office at Precision Enterprises, Inc., Morsani consults with two members of his staff, systems analyst Jean Scott and company controller Gerald Uim, Jr.

Morsani has a fascination with the automobile stemming from his childhood. He is a native of Brighton, Mich., but his father, a pipeline welder, moved the family to a farm in Arkansas and then to another in Oklahoma. When he reached high school, Morsani ran the family farm, enabling his father to go where the pipeline work was six or more months a year. The experience he got on farm machinery nurtured young Morsani's interest in mechanics.

His education at Oklahoma State University was interrupted by the Korean War, and he served four years in the U.S. Navy as an aircraft mechanic. Following graduation from OSU in 1957 with a degree in trade and industrial education, he joined Ford Motor Company. Ford sent him to Jacksonville, Fla., to work in a Lincoln-Mercury district sales office. He then worked in several states, managing departments and becoming familiar with the service and financial aspects of the business.

genuine person," living your ethics on Wednesday or Thursday just as you would on Sunday.

Morsani, whose holdings include part ownership in a management consulting company called Business Resources Group and in Patriot Life Insurance Company, has not bought or started companies for the monetary reward, he says. "I really did it to create jobs."

"The average family is about 3.5 people," he says. "So I tell my managers we're responsible not for 400 employees but for food and shelter and clothing for 1,500 people. And that's an awesome responsibility for an automobile mechanic!"

Frank Morsani's missionary spirit has led him into some ventures somewhat afield of the automobile industry. He is chairman of First Tampa Capital Corporation, a small business investment company that he started last year under a federal program. There are few such SBICs in the Southeastern states

MORSANI SPENDS at least 30 percent of his time on activities unrelated to running Precision Enterprises. He serves on the board of the Greater Tampa Chamber of Commerce and on the Hillsborough County Aviation Authority. He was the first chairman of Tampa's Private Industry Council and has been on the boards of the University of Tampa and St. Joseph's Hospital.

He has been a U.S. Chamber board member since 1977 and has served as chairman of the Chamber's Small Business Council. In 1980 he was a delegate to the White House Conference on Small Business, and in 1982 President Reagan appointed him to the U.S. Small Business Administration Advisory Council.

Morsani disagrees with the philosophy of many old-line managers that a chief executive should only spend his time running his business and should not get involved in the community.

"In my view, that attitude is exactly what got us in trouble in Washington for 40 or 50 years," he says.

"Now that's a strong statement, but I really believe it. The business community abrogated its responsibilities. It didn't explain what its real purpose

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Morsani supports Tampa economic development by encouraging business startups and joining other area leaders to court foreign trade.



was, what its goals were and what it took to make a profit." In the past, he says, business has too often simply reacted to legislation or administrative rules instead of participating in their development.

As U.S. Chamber chairman, he hopes to give more impetus to business' being

action-oriented, "especially on legislative matters—that is, creating legislation rather than reacting to it."

It is important for the business community to communicate its interests to the public and to Congress, he says. But he also cautions that business issues are constantly changing and that

business people have to be prepared for the changes. In his own industry, for example, automobile imports "were hardly an issue in the early '70s."

Morsani is pushing hard for federal spending cuts. He would just as soon see the Department of Energy and the Department of Education eliminated, for example, and he submits that, if there are cuts across the board, the small business community will be more willing to go along with cuts in the Small Business Administration.

He is asked about the SBIC he heads. With the \$2 million it has raised privately, it can borrow \$8 million from the SBA for a \$10 million pool. What will he do if the SBA's lending programs are eliminated?

Morsani smiles. "We'd figure out how to expand our group to about 30 and raise \$10 million in private capital. That's what we would do."

CAROL AND FRANK Morsani, who met during high school, have two daughters—Leann Rowe and Suzanne Anderson. Suzanne's husband, Lawrence T. Anderson, is vice president of finance and administration of Precision Enterprises, and Leann's husband, Mike Rowe, is president of Precision Isuzu, one of Morsani's Tampa dealerships.

A typical work day for Morsani begins at 5 a.m. and ends around 6 p.m. He uses the early morning hours for reading, and he does most of his dictation when he is driving. He loves to work, but he never goes to the office on Saturdays or Sundays, and every five or six weeks, he takes a week off.

The automobile industry is particularly vulnerable to consumer disgruntlement. But more than 20 years ago, when he was a service manager, Morsani learned one secret of heading off customer unrest.

He started with a bit of empathy, making the assumption that no customer wants to have to bring a car in for repair, and he instituted a policy still in effect. After a customer picks up his car, someone from the dealership will call and ask five questions:

- Were you greeted promptly and courteously?
- Was your car ready on time?
- Were the repairs performed satisfactorily?
- Were the prices fair?
- Was your car as clean when it was returned as when it was brought in?

"These questions are asked of every customer in all our companies every day," says Morsani. "I'm convinced you don't have complaints if people know you're concerned."

—Sharon Nelton

Innovation-Minded Vice Chairman

The new vice chairman of the U.S. Chamber of Commerce runs a high tech company with an unwavering eye on research and human resource development.

A modern corporate leader who encourages his employees' innovativeness, Air Products and Chemicals, Inc., Chairman and Chief Executive Officer Edward Donley

is bullish on the future of America. "After leading the world out of the recent recession, the United States has again demonstrated the vitality of its free enterprise system," says Donley.

The Highland Park, Mich., native's career began with Air Products in 1943, the year he graduated from Lawrence Institute of Technol-



PHOTO: DAVID WALSH

ogy. He was a part of the company's wartime boom as a manufacturer of oxygen for bomber crews.

Now a \$1.7 billion-a-year company with 17,000 employees and operations in 18 countries, Air Products produces a varied range of gases and chemicals, provides engineering services and is headlong into pioneer-

ing research and development projects.

Donley has been chairman of the Allentown, Pa., company since 1978. He and his wife, Inez, have two grown sons and a daughter. Donley is a director of American Standard, Inc., Mellon Bank Corporation and the Pennsylvania Power & Light Company.

When Horsing Around Ain't Hay

By Ray Brady

IF YOU WANT to make a horseplayer's eyes light up, tell him about the 50 to 1 shot that won at Hialeah or some other racetrack. If you want to make an investor's eyes light up, simply mention Seattle Slew.

In 1975 the colt was unwanted and sold for a bargain basement price of \$17,000. But he went on to win racing's Triple Crown—three races that include the famed Kentucky Derby. Seattle Slew then retired to the stud farm, where he has sired a string of winners. His current value is set at \$120 million—and rising.

It is no wonder that racing is attracting a growing number of investors who buy horses, sometimes solo, sometimes in partnerships.

The minimum investment in a partnership may run from \$25,000 to \$100,000 (though one is as low as \$5,000). In some partnerships the investors will put up a total of \$15 million, with another \$7.5 million being borrowed.

Merrill Lynch and Prudential-Bache, two major brokerage houses, have been raising money for horse partnerships. It is important, of course, that the neophyte horseman pick his partners, or his other associates in racing, with care. Racing is a business where nearly anybody can claim to be a professional; there are no degrees or diplomas.

It is a business, though, and it should be approached like one. Notes Russell B. Jones, Jr., a director of the Thoroughbred Owners and Breeders Association: "You should be aware of the odds you are facing with your racehorse. The average thoroughbred earns less than half the cost of keeping it in training for one year."

As a horse owner myself, I can testify that the thoroughbred is a delicate animal: 1,200 pounds of finely tuned racing machine set atop four thin, injury-prone legs. Even romping in a field, a thoroughbred can hurt himself, and the heavy pounding involved in racing has broken down many a horse.

To reduce some of the risks, a number of investors—and those two brokerage houses—have gone into breeding programs, raising (rather than racing)



Seattle Slew after winning the Derby. One of his owners is at left.

horses for profit. Such a program can start with purchase of a pregnant broodmare at one of the country's many breeding stock sales. A typical broodmare will have three foals in four years. Provided the mare has fairly good bloodlines, each foal probably will sell for 50 to 100 percent of the mare's purchase price.

None of this is automatic, however: The mare must become pregnant and give birth to healthy, well-formed colts.

WHAT IF THE investor wants something faster for his money—racing horses? The risk rises. For one thing, take the cost: You can ease into racing by going to one of the claiming races around the country. In these, anyone who puts up the claiming price can buy a horse that already has been trained and is actually running.

But racing is not cheap. At a major track, training costs run about \$55 a day—not counting charges for a blacksmith, veterinarian, jockey and so on. Like baby, horses need shoes—\$70 worth every three weeks. Veterinary charges probably will run to \$3,000 a year, and shipping the horse, probably about \$2,500. Insuring the horse will

cost 5 percent of his value annually.

Even if your horse wins, it will cost you. The trainer will expect 10 percent of any money the horse brings home, and although the jockey gets a set fee for riding your mount, he will expect 10 percent if you win. The stable help will also expect a few dollars.

What about tax benefits? They are there, but they are not as good as in some other forms of investment. After making it clear to the Internal Revenue Service that you are in racing as a business, you can deduct "ordinary and necessary" business expenses (feed, training, veterinary care and so on).

There is a write-off—an accelerated cost recovery system for the horse. This can run for either three years or five, depending on the horse's age. If you sell a horse at a profit, you are taxed at long-term capital gain rates provided you have owned the horse for two years or more.

You report all this to the IRS on a business of farming schedule, sent in with your return. If you deduct all your expenses, and you have a loss from horses, you normally can deduct that against taxable income you received from other sources. There is a limit, however, on the numbers of years for which you can report losses.

Tax laws aside, racing does present a mixed picture from an investor's point of view. On the one hand, there has been a huge rise in the number of race horses foaled in America; last year there were 47,000. On the other hand, purses for races have also been rising: 106 U.S. racetracks offered purses of \$200,000 or more last year; in 1978 only two offered that kind of money.

And the glamour keeps luring investors. The big horse dealers, especially in Kentucky, throw lavish parties for owners, complete with gallons of mint juleps. There is something heady about seeing a horse of your own romping around the blue grass of Kentucky or, even, the green grass of Maryland.

Asks Steve Neamtz, who heads Prudential-Bache's horse partnership operation: "What else lets you dream about going to the Kentucky Derby and perhaps seeing a horse run in which you've got an interest?"

RAY BRADY is the business correspondent for CBS News.

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Recognizing that many older people have difficulty keeping up in popular exercise classes, Connie and Jerry Letney started a fitness franchise for folks 50 and over.

The Over-50 Exerciser Finds a Couple of Allies

Five years ago, a Waterloo, Iowa, woman named Evelyn Peet and some of her friends wished out loud for an exercise program tailored to their age group. They just could not keep up with younger people in the aerobics and other popular fitness classes.

Their wish was Connie Letney's command. Letney, Peet's daughter, had been teaching special programs in exercise and dance under grants and state funding. She applied for and received state funds to run an exercise program for people aged 50 and over in recreation centers in Waterloo and nearby Cedar Falls. It was so successful that she had to turn people away.

The experience made her and husband Jerry see that there might be a real potential in fitness programs for older people.

It was the beginning of "Take Time," a commercial fitness center for older people that the Letneys, both 48, opened in a leased building in Cedar Falls with \$10,000 of their own money last September. Take Time was turning a profit by the end of the year. And an appearance by Connie and two of her students on cable television's Lifetime Health Network in November generated so much interest among investors that the Letneys have already sold three franchises. They hope to have 50 sold by the end of 1985.

"We believed there was a void in the fitness market, but before we ever

opened the door to our first unit, we went out and researched it," says Jerry. They sent out questionnaires. They drove to Texas, Arizona and Florida, calling on fitness centers along the way to find out what services they offered people over 50.

"There just were not any programs for this age group at all," says Connie. She and Jerry knew they had something. Jerry, an 18-year veteran of management at John Deere Tractor Works, had quit in 1979 to go into business for himself. But last year he sold the two automobile dealerships and the real estate business that he owned to become Connie's full-time partner in Take Time.

Take Time classes are designed so that students—one is 83—can exercise with their friends, even though they might be at different fitness levels. "They exercise at their own pace, and we really stress this," says Connie. If someone has a limitation and cannot do a particular exercise, she finds an alternative. "The saying 'No pain, no gain' is not our philosophy. We want people to feel good when they leave."

Research showed the Letneys that older people look for companionship as well as exercise, so Take Time facilities include a "friendship area," with tables and chairs and vending machines for refreshments. Students often come in before a class or stay afterward to socialize, says Connie.

Unlike many health clubs, Take Time

does not lock its customers into long-term fees. They pay month by month—\$18 a month if they take two classes a week, for example, and \$22.50 if they take three. In addition, they can buy Take Time exercise suits, hats, tote bags, T-shirts and exercise records and tapes. The music, composed especially for Take Time, is written in the style of the 1930s and 1940s. Connie says her students had complained that the music in other fitness programs was too fast.

Jerry handles finances for the company, but Connie has trained him to teach classes, too. She says that "he has become very good at it." He is president, and she is vice president.

This summer, the Letneys expect to move Take Time headquarters to Ocala, Fla., partly because they like Florida and vacation there often and partly because the state, with its increasingly older population, offers a ready market. Their first center in Cedar Falls will become a franchise and already has been sold to a franchisee.

Whatever happened to Connie's mother, Evelyn Peet? She was among Connie's first students at Take Time, and yes, she is still exercising.

"When I started all this, my main concern was that my mom and her friends weren't fitting in any place," says Connie. They do now.

—Sharon Nelson

Organized Common Sense

The subtitle of Paul Hersey's new book, *The Situational Leader*, is "The Other 59 Minutes." Is it a poke at Kenneth Blanchard, co-author of the extraordinarily popular *The One Minute Manager* and other managing-made-easy books?

No, says Hersey. He thinks Blanchard is really saying that managing is a full-time job but that you have to take that "extra minute" to be sure an employee understands the goals or to give him a pat on the back for a job well done.

In fact, Hersey's book and Blanchard's latest, *Leadership and the One Minute Manager*, both popularize an academic concept called Situational Leadership that they developed in the

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1960s. Hersey, then chairman of Ohio University's management department, had hired Blanchard, a new Ph.D. from Cornell, to teach. He then invited Blanchard to join him in writing *Management of Organizational Behavior: Utilizing Human Resources*, a textbook classic now in its fourth edition.

They introduced Situational Leadership (a registered trademark) in the second edition. Simply stated, the model suggests that the effective leader measures a subordinate's readiness to do a job and then provides the appropriate leadership style for that situation.

If the follower is completely unready, for example, lacking both skills and willingness to do a job, the leader must give specific instructions and close supervision. But if the subordinate is totally able and willing to do a task, the manager can give him responsibility for decision making and implementation.

"All it is, is organized common sense," says Hersey. But, he says, studies show that groups trained in Situational Leadership are more productive than untrained groups.

"Developing the concept and producing the model was basically my own work," says Hersey. "But I don't think I could have done it with this quality without Ken being there and sharing his thoughts."

In *Putting the One Minute Manager To Work*, Blanchard identifies Hersey as "my mentor, friend, father and brother—all wrapped up in one," and his latest book is dedicated to Hersey.

But Paul Hersey is more than an academic and a mentor. In partnership



Sisters Sandy Warford (left) and Barbara Todd made a backyard greenhouse flower into a nationwide mail-order business in freshly cut orchids.

with his wife, Suzanne, he is an entrepreneur, running the Center for Leadership Studies in Escondido, Calif.

With affiliates in 22 countries, the leadership research and training company does \$10 million in annual sales worldwide. It had its roots in consulting that Hersey and Suzanne, who has a master's degree in organizational behavior, did while they were still in Ohio. ("She is the executive vice president of finance," says Hersey. "I wouldn't be able to hold on to two nickels.")

Hersey had decided to take a year off from Ohio University to write a book that would apply leadership principles to child rearing (*The Family Game: A Situational Approach to Effective Parenting*). Blanchard, then at the University of Massachusetts, accepted Hersey's invitation to join him in San Diego and once again be his co-author. The Herseys got hooked on Southern California and decided to stay.

By training people in more than 1,000 companies to train others, the Herseys and their 15 employees have reached more than 1 million managers with the Situational Leadership message. With books on the same subject vying for the public's attention, have Hersey and his famous protégé parted ways?

"I'm sure we'll work together on the fifth edition of *Management of Organizational Behavior*," answers Hersey. But he adds that if you are good at developing people, you develop them to go out on their own.

Others, like Blanchard, have left the Hersey fold to establish their own consulting firms, he says. "They're our best competition, but that's what keeps us growing."

—Sharon Nilton

A Rosy View Of Orchids

With long-stemmed roses selling for \$45 a dozen, why not send orchids? Barbara Todd and Sandy Warford point out that a basket of five large orchid blossoms costs much less and, long after most cut flowers have faded, these exotic blooms will continue to flourish.

The women, sisters, are proprietors of "Orchids Only," a business they began in 1981 in a small greenhouse attached to Todd's Portland, Ore., home. They have since expanded to an attractive downtown shop and a nationwide mail-order business that offers a variety of orchid arrangements, priced from \$13.50 for a small vase with a single bloom to \$31.25 for a basket of five, shipping costs included.

But how to attract customers to a greenhouse in a residential neighborhood? The sisters' solution—a promotion advertising limousine service to their shop. It worked. Not only did customers come, but the unusual marketing approach resulted in local TV and newspaper coverage, spreading the word even more quickly. (The neighbors did not object; Todd and Warford had gone from door to door—with orchids—to clear their plan.) Within a year the sisters were doing enough business to open the shop in downtown Portland.

A year after that they began advertising nationally in such magazines as *Gourmet* and *Bon Appetit*. And last year their orchids were included in a national mail-order catalog. They also began to produce their own catalog.



Paul and Suzanne Hersey teach leadership through their worldwide consulting firm.

Next, they developed affiliates in five cities where they had gotten the best response to their national advertising. The affiliates—in Detroit, Miami, Houston, Minneapolis and Washington—are paid a commission for taking orders locally. The flowers are then shipped direct to the customer from Oregon.

It has not all been easy. The sisters admit making mistakes—like spending half of their initial investment on expensive vases when they started the business. Although the vases were elegant, customers did not like the price. (Eventually, they gave the vases away as presents.) They now pretest new arrangements, orchid varieties and containers in their shop before including them in the catalog. They have learned that simple ceramic vases and baskets are the most popular containers, and that pink varieties are usually favored over green orchids.

Listening to customers also changed the focus of their business. "We started out just selling plants, but people kept asking for bouquets," says Todd. Although their catalog includes orchid bulbs for \$6 each and blooming plants for \$40, Todd says they now deal primarily in cut blossoms.

Warford and Todd agree that their biggest problem is convincing people that orchids are not fragile. "These are not the same orchids people got in corsages in the '40s and '50s," says Todd. They are of the cymbidium variety, native to the foothills of the Himalayas, and thrive in the temperate, moist climate of the Northwest. Careful breeding has produced larger, more richly colored flowers than those of the original species, and the blossoms are hardy, lasting three weeks or longer.

To emphasize the point, Warford holds out a perfectly formed white orchid. "Touch it," she says. "You can't hurt it. It won't discolor."

In fact, the partners guarantee that their blooms will arrive fresh and flawless anywhere in the United States.

Todd and Warford attribute their success to a combination of effective marketing and careful planning. They started small, investing less than \$5,000 to test their idea. When it proved successful, they borrowed \$20,000 to expand. They carefully direct their marketing efforts toward the affluent consumer who enjoys entertaining, sends flowers as gifts and buys them for home or office.

The formula has paid off. Sales have increased about 40 percent each year since the business started. With the recent acquisition of a computer to speed up order processing, they are projecting 1985 sales at \$400,000.

—Joan C. Johnson



Andre Woods (standing) discovered that he was handy at finding handymen for temporary assignments.

Putting People In the Right Places

Andre V. Woods is a skills broker. Through what he calls "creative uses of temporary help," he markets the work of free-lancers, moonlighters and independent contractors in the Charleston, S.C., area.

His business, Handyman Network, last year brokered the skills of about 900 people for jobs ranging from building a wishing well to fetching a cat from under a house, removing a flagpole, polishing silver and brass, and welding a broken iron fence in Charleston's posh Battery neighborhood.

The scion of a prominent black family, Woods, 38, traces his Charleston roots to the early 1800s, "as best my mother can tell." When he finished college, he went to work for the Port of Charleston.

He discovered he was effective at designing work-flow systems and putting the right people in the right jobs, but, he says, he was earning \$14,000 a year in 1980 and "realized I wasn't going anywhere."

Woods left the security of the government job and established an employment agency. Soon he discovered there was a greater demand for temporary workers than for permanent employees.

So he formed the Handyman Network, which in four years has supplied

temporary workers and contractors to slightly more than 4,000 clients.

Last year sales totaled \$900,000. The pace so far this year indicates a 20 percent increase.

"You name it, and we can supply it," says Woods. He identifies the skills of temporary workers through tests, interviews and work history.

Woods can supply a temporary secretary, commercial artist or electrician. He can send domestic help to a housewife, or a building contractor to restore one of Charleston's antebellum houses.

People in Handyman's pool like temporary work. "They enjoy moving from place to place," Woods says. "It is different and exciting."

In addition to temporary work, Handyman leads can get people into regular jobs. "Our statistics

show that 27 percent of our placements are absorbed as permanent employees," Woods says.

He promotes Handyman's worker skills through newspaper, radio and direct mail advertising. He says word-of-mouth is his best advertising tool.

Woods believes the Handyman method appeals to business because he maintains the payrolls and handles the taxes. "We can save a company on overtime and on its unemployment insurance rate," he says. When a company lets temporary workers go, it is not faced with claims against its unemployment insurance account.


Handyman's fees are a percentage of the rate charged those who order temporary workers.

With contractors, the fee usually is negotiated.

Woods believes he owes his community, as well as his business, the benefit of his talent and time. His resume lists 14 community activities, including the Charleston Preservation Board, United Way and the Mayor's Committee on Summer Jobs.

Handyman's success depends on the steady flow of people and businesses seeking temporary workers. "There will always be this demand," Woods says. "I like that, because I'm making money, far more than when I was in the port job, and I'm going to make more. I'm independent. That's what I like most."

—Tenney Griffin



Clocking In, Punching Out, Cleaning Up

Louie Lathem runs a firm
that has never been in the red.

By Del Marth

TIME RECORDERS are subject to all kinds of abuse. People slap them, hit them, even kick them. Disgruntled workers have been known to pour grease, oil or water in their works.

That represents a challenge to white-haired Louie P. Lathem, Jr.—a challenge his Lathem Time Recorder Company meets by making time card clocks and similar recorders that survive both abuse and heavy use. Result: The Atlanta company, which punches up sales in the millions, sees an annual growth of 10 to 20 percent ahead.

"Our night watchman's clock, for example, is one of those things we no longer go out and sell," says Lathem, 64. "The customers come to us."

Overwhelmingly, the customers—for payroll and job time recorders, time stamps, numbering machines and wall clocks—are small businesses.

Some are located abroad. Lathem recorders log the hours of Spanish, French, Portuguese, German and Arab employees, as well as Americans. Japan, with its electronics prowess, has sprouted Lathem competitors.

Until the late 1970s most time recorders operated mechanically, either by the push of a lever to stamp a time card or by having a small motor in the recording unit trigger the punching. Now

Japanese firms, along with some of Lathem's seven U.S. competitors, are moving into electronically operated recorders.

Louie Lathem is unworried. "The average business that buys our payroll time recorder employs 20 people or less," he says. "That business is content with our mechanical clocks and doesn't want to spend three or four times more for an electronic unit."

Nevertheless, Lathem is moving his company—deliberately, unhurriedly—into the world of microchips and software.

The company took its first electronic step in 1979, beginning manufacture of a master clock-control system that you might say does everything in an office, factory or school but sweep the floor. The control is a solid state unit designed around a microprocessor.

Lathem says the control is programmed to "set all clocks in a building to the correct time, track days and months and years including making an allowance for leap year, ring bells and horns in separate rooms at separate times and, in the case of a power outage, continue to track time and reset all clocks when power is restored."

Other electronic steps followed. Now the night watchman, making his securi-

ty rounds of factories, hotels or housing projects, carries a square electronic clock on his shoulder instead of the familiar round leather-cased Lathem clock. At night's end, the new clock's digital components spit out a printed record of the watchman's rounds. In the old days, the watchman hand-punched a rotating card on the clock face as he visited each station on his rounds.

Today, that type of clock is still heavily used. Many insurance companies, says Lathem, require a night watchman on premises of hospitals, hotels and the like. "The newer automatic electronic devices placed around a building can alert authorities," he says, "but by the time they arrive the burglar often has gone."

He points out, too, that the automatic devices, which are built to set off alarms, can cost \$50,000 or more. "Meanwhile, ground security such as a night watchman can make the rounds carrying a system costing less than \$700," he says. "Ground security, and therefore watchman's clocks, will be around for many more years."

THAT ROUND CLOCK was long a mainstay of the Lathem Time Recorder Company. The company was incorporated in 1947—Louie Lathem, now its chairman and president, owns 70 percent of the stock—but had begun manufacturing the previous year.

Actually, its beginnings go back 35 years before that.

"In 1919 my dad [Louie, Sr.] was 18 and a sales representative for a time recorder company," says Lathem. "He

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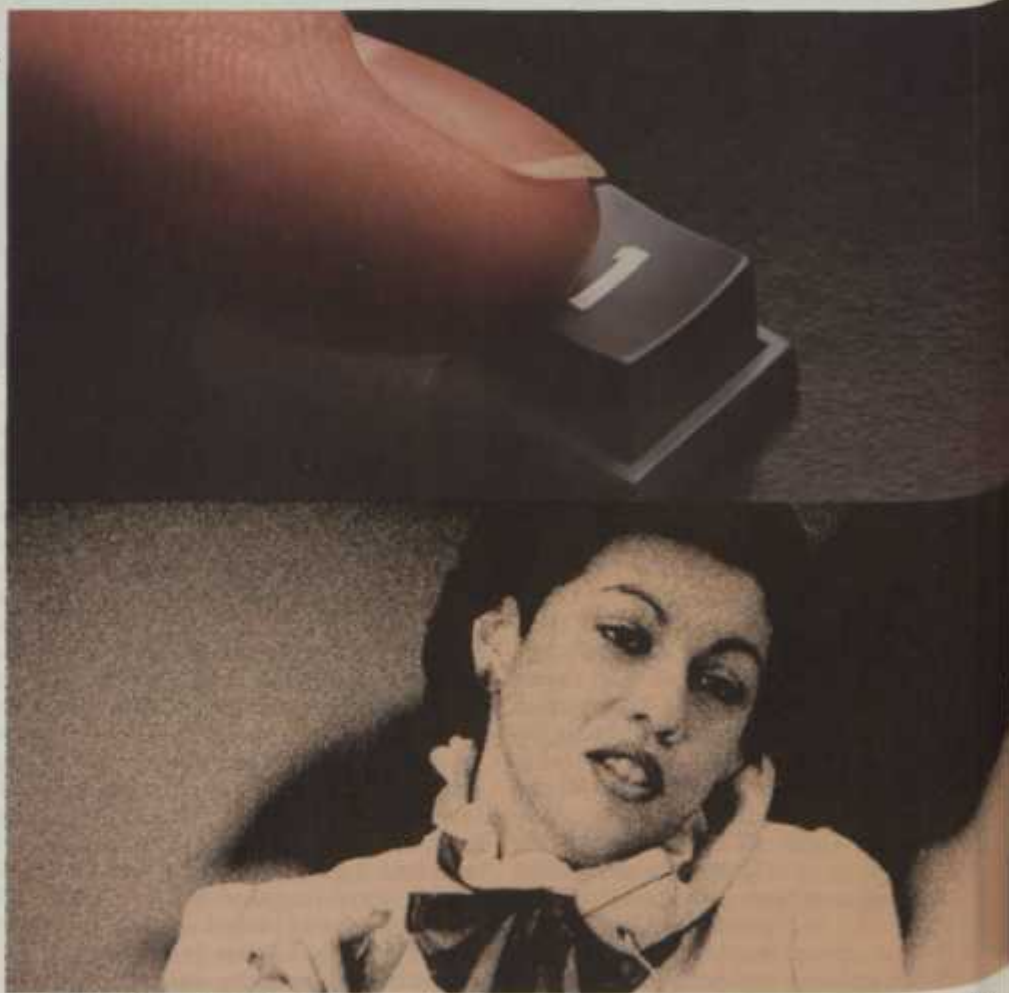
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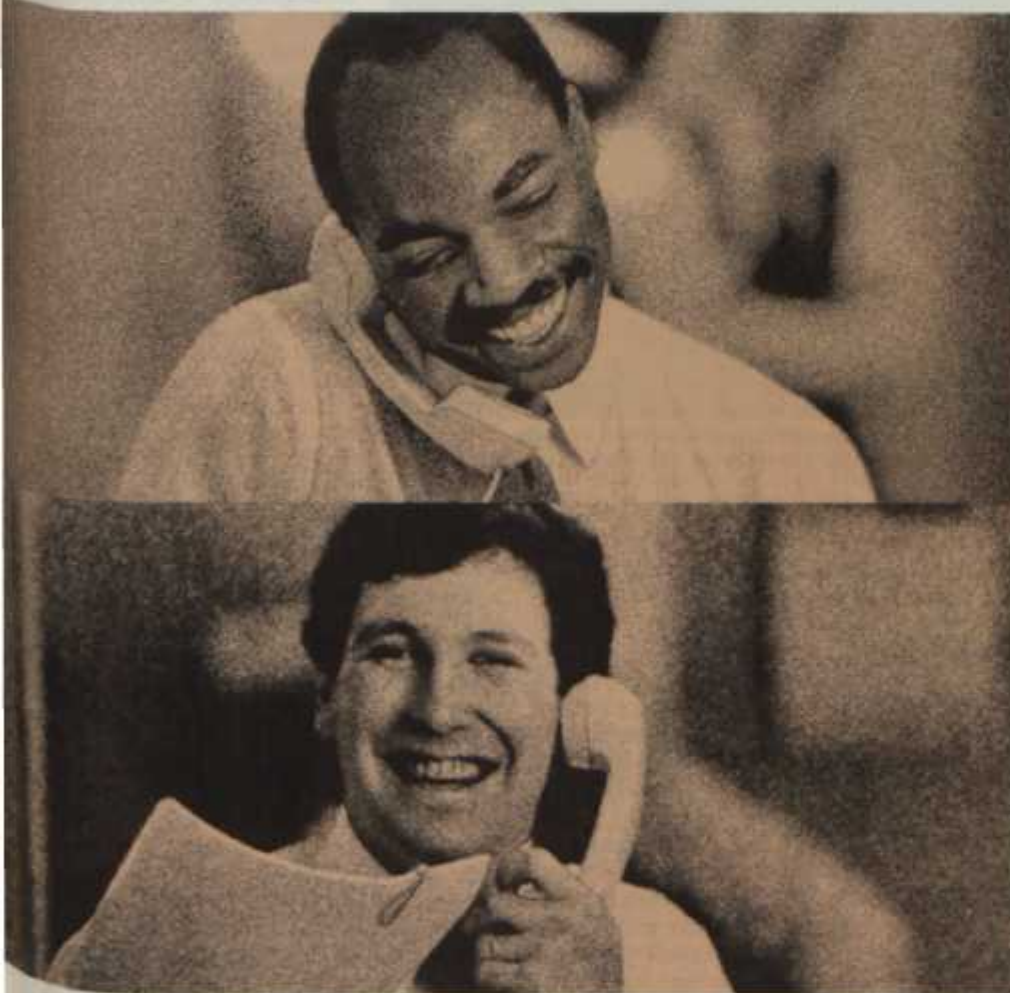
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was too young to sign a legal contract, so his father [George] quit his job at the post office, and the two formed a partnership to sell for the company."

In the late 1930s two events led the Lathems to decide to make their own time recorders. Their territory was cut to six states, and Congress passed the Fair Labor Standards Act.

The 1938 law, requiring employers to keep exact payroll records for the new 40-hour workweek, created a tremendous demand for time card clocks. The two Lathems saw a potential that their six-state territory could not satisfy.

World War II put their plans on hold. And in 1946 George Lathem died. But another Lathem—Louie, Jr.—came home from the Navy that year. Age 26, with an industrial management degree earned at Georgia Tech prior to his military service, he signed on with the firm.

The company promptly built its first product, a watchman's clock, and followed it a year later with its first payroll recorder.

Selling by direct mail, the firm beseeched employers to "decrease tardiness, increase efficiency, maintain hour and wage laws—buy an accurate, dependable time recorder."

In 1955, with only two products, the company hit \$1 million in sales. Lathem credits its success then and now to integrity and quality. "We back up our products with warranties, with our own service department," he says. "In fact, we invite customers to call and talk to anybody in our plant if they have trouble with our clocks."

Lathem finds quality is best controlled by in-house manufacture, where possible. Says Lathem's son Bill, 31, sales manager of system products:

"We have our own punch presses and most of our own tools and dies. We build almost everything ourselves, except the motors. Buying parts outside is generally more expensive, and there is a problem of inventory control when we do. If bad parts come in, it holds up production for days or weeks."

Bill says that "is a major problem as we move into electronics. We become more dependent on outside manufacturers, since electronic parts cannot be made in-house."

Lathem's preference for in-house manufacture includes printing the cards that go into the time recorders. The company churns out more than a million a week, not only for users of its machines but for competitors.

Says Louie Lathem: "You know, our time card orders sometimes prove a

good barometer for how business is in the nation. When time card orders decrease, there is usually an economic slump somewhere."

By building its own equipment, Bill says, the company has achieved an unmatched acceptance and recognition in the time recorder market. Nevertheless, he says, the firm has had to respond to the increasing electronic technology in its field. "We had two directions we could take," he says. "We



Chief Engineer Fred Pipes (left) and executive Bill Lathem with Pipes-designed master controls for all clocks in a building.

could compete directly in electronics and come out with machines with more horns and whistles, or we could diversify our own product line."

THE LATHEM company chose the latter route, hence its addition of electronic readouts to the watchman's clock and also to its time stamp machine. A Lathem best seller, the desk-top time stamp machine imprints time, date and numbers on business forms.

Says Bill: "There is a tremendous amount of electronic hardware on the market today, but the software has not been developed yet to speak with everybody's computer. As a result, we don't think it wise to get too tied up in electronics, particularly if you are into mass marketing."

His father, although eager to dabble in electronic adaptations of Lathem products, also believes the new technology is "too cloudy" at the moment. Besides, he adds, "mechanicals have been our steady financial support. For us, they have provided the good profits. We have maintained our 20 percent annual growth all the time other companies have tried to capture more of the market with electronic devices."

Continuing growth does have its accompanying problems. For the Lathem company, it is plant space.

In 1970 the company built its own 56,000-square-foot plant on Atlanta's outskirts. The building has undergone three expansions, and a fourth—to

house its growing electronics department—is contemplated.

That department will not be top-heavy with engineers and researchers. Explains Bill Lathem: "We prefer to hire experts on a part-time or consulting basis as we need them. You just can't find an engineer for your staff who can do it all these days. So we will hire part-time a packaging engineer, a software engineer, a design engineer, an electronics engineer—only for the

short time we will need one."

As a result of such management techniques, Lathem Time Recorder Company never has had an unprofitable year. And it has grown from six employees in 1946 to 187 today in its 110,000-square-foot plant, turning out 1,000 time recorders every week.

Another 15 employees work out of Lathem Time California, Inc., a branch distribution center in Los Angeles for Western customers. Lathem products now are sold by a network of 800 independent office machine supply dealers.

Louie Lathem, who became president in 1968 and chairman in 1975 upon the retirement of Louie, Sr., is fired up over a potential new product. It is a portable electronic elapsed-time recorder that can be used to keep time in memory away from the central office. The machine can then be returned to the office, where the stored time can be removed from memory.

Lathem proposes making the recorder portable so it can be used for construction site employees. "You know," he says, "there are places you can't use time recorders because you don't have an electrical outlet."

There also are places where an outlet is available, yet time card machines are not convenient.

The company's lack of debt—"We go to the bank only to cash our checks," says Louie Lathem—plus its steady growth, its quality products and its entry into electronics have attracted buyout and merger proposals.

"We've been approached by firms in England, in Florida, on the West Coast, even by a couple of corporations in Atlanta," says Lathem. "Some of these offers have been quite tempting."

"But we continue to operate successfully as an independent. We have no need to sell. And then I have two sons coming along. [Louie III, 33, is in charge of sales around Atlanta.] Lathem has always been a family business, and we intend to keep it that way."

What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgement Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Banks, insurance companies and various state and federal agencies, besides the I.R.S., all require notarized authorizations to grant loans, buy property and equipment, enter into leases and even to sell assets. And other problems can be equally devastating. The reason? The owner didn't document important transactions. The small business owner simply has to "Get It In Writing".

Here are some recent "horror stories" direct from actual court cases.

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings . . . keeping minutes . . . taking votes . . . adopting resolutions . . . isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important the forms are to you and your business. Lawyers know

that the I.R.S. will insist that you have the corporate records to prove that you are entitled to all the tax breaks from having a corporation.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. It is truly **The Complete Book of Corporate Forms**. It was prepared by Ted Nicholas, author of the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50*. This book has become the largest single source of new corporations in America. His book has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help after they incorporated. They didn't know how to follow through, how to turn their corporation into the ultimate tax shelter.

And so, he prepared **The Complete Book of Corporate Forms**. Virtually all the forms you will ever need are all ready for you. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping good corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

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Changes in Membership of Board

You will also receive all the stockholder and directors resolutions you will need to take any major business action, including:

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REAL ESTATE has become the most democratic of investments. According to the accounting firm of Price Waterhouse, 53 percent of both personal wealth and the value of business fixed capital in the United States is in the form of real estate.

It "pervades our whole life; it's the underlying base of the whole economy," says Crawley Joyner, III, president of Joyner & Company, a Richmond commercial realtor.

There are persuasive arguments for investing in real estate. It has generally kept ahead of inflation and often has done much better. In the last decade, pooled real estate funds have outpaced stocks, says the Real Estate Research Corporation, a consulting organization.

And real estate investments hold their value through economic cycles, because the immensity and diversity of the real estate market shields it from manipulations of "big" players and from marketplace psychology.

"It is unlikely that the bottom would ever drop out of the national real estate market, because real estate is so widely held," says Randall C. Handy, Jr., president and owner of Handy Realty, Inc., a Seaford, Del., firm specializing in commercial property investment. "There's no chance that one investor could ever corner a significant part of it. The same cannot be said of stocks, where a big institutional investor can really influence the market."

Various tax reform proposals—most notably the Treasury Department's—will affect real estate investing, although not immediately and only in certain kinds of investments.

Because of the size of the real estate market, good investment opportunities are always possible. According to a paper by the Griffin Companies, Inc., a real estate investment firm, "there are real estate opportunities in every economic climate as well as good and bad in every market. Given the same amount of money, a real estate investment in Sandusky can do just as well as ... one in San Francisco."

One vehicle for investors: Real estate investment trusts—REITs—with total assets of \$9.5 billion, pool the capital of scores of investors and then either buy a diversified portfolio of property (equity REITs), make loans (mortgage REITs) or do both (hybrids).

REITs, Wall Street favorites in the early '70s but later out of favor because many proved to be overleveraged, are growing in appeal today. They offer among the highest dividend yields of any stock group. Unlike limited partnerships and real estate in general, they are liquid—salable at the drop of a



SPECIAL REPORT

Investing Smart In Real Estate

Opportunities in a solid market
range from homes to shopping centers.

By Mary-Margaret Wantuck

hat. They also boast a tax advantage that would not be touched by the current Treasury tax reform proposals, at least as originally presented. They pay no federal tax, giving stockholders earnings that get taxed only once. To qualify as a REIT, trusts must distribute 95 percent of their net taxable income to shareholders.

Federal Realty Investment Trust,

with \$175 million in assets, is a veteran REIT, started in 1962. Its specialty is buying decrepit strip and regional shopping centers, mainly in the Washington and Philadelphia areas, and giving them a facelift. Once leases expire, old tenants are replaced with upscale stores paying market rents. "Tenants pay a base rent," says Federal's President Steven Guttman. "In addition, the

NATION'S BUSINESS • JUNE 1985



Houston is overbuilt, but its potential encourages developers to pour money into office building construction.

mand is good in markets like Chicago and Philadelphia. And in land-short cities like New York and San Francisco, converting apartments into condos is profitable.

But generally, "the condo industry is flat on its back," says Stephen Driesler, executive vice president of the National Multi-Housing Council. He believes that it will be 10 years before condo prices rebound on a major scale.

Residential time sharing—particularly in resort locations—has become more attractive since some shoddy practices of the late 1960s and early 1970s were ended. But the nonprofit American Homeowners Foundation advises that time sharing is "for those individuals who believe that the lifestyle offered by a particular development suits their needs and is worth the price asked."

All types of residential investment would be dealt a severe blow, however, under the Treasury's original tax reform plan. While it would keep mortgage interest deductions intact on principal residences, it would limit personal interest deductions—nonmortgage interest and interest on vacation homes—to \$5,000 plus investment income. Property taxes would be nondeductible, increasing the after-tax cost of owning and maintaining the current average priced home by \$1,300 yearly and reducing its value by \$10,000, says Jack Carlson, the National Association of Realtors' chief economist.

Investors in rental homes would be contending with a lengthened depreciation schedule: 63 years instead of the current 18.

The Treasury proposal would discourage new multifamily rental construction. Right now, a substantial amount of apartment building is financed through the sale of tax-exempt bonds. If the bonds were eliminated, says Lewis Bolan, a Real Estate Research Corporation vice president, "it would have a dramatic impact on multifamily housing for the elderly and on conventional housing, because that's what makes those units affordable and makes the numbers work. With interest rates at 13 percent, financing with a 10 percent tax-exempt bond often provides the cushion that makes the difference between a viable and nonviable project." Estimates are that apartment rents would escalate between 25 and 40 percent.

William Comings, Jr., executive vice president for multifamily development of the National Corporation for Housing Partnerships, says: "Without the means of attracting equity and without feasible debt financing, there will be no new apartments built and no rehabilita-

trust receives a percentage of the stores' revenues."

Syndications or partnerships are another avenue of investment. Robert A. Stanger and Company, a Shrewsbury, N.J., investment research firm, reports that in 1984, 69 percent of investment in real estate was made through limited partnerships, compared with 54 percent in 1983.

However, if the original Treasury tax proposals were to pass, they would cut the tax shelter benefits of limited partnerships.

Partnerships with more than 35 limited partners would be taxed as corporations and the amount of investment interest that an individual could deduct in any tax year would be severely reduced.

Multifamily housing

The median price of a new single-family home is \$82,500; for an existing house, \$73,500. As a result, demand for multifamily housing has increased.

Investor enthusiasm for apartments has been higher in the past few years than at any time since the early 1970s, notes the Real Estate Research Corporation. Rising rents have improved the economics of apartment building ownership, and tax-exempt financing is attractive.

Condominiums, however, are suffering some reversals. A decade ago, young professionals were buying condominiums, and they were attracting small investors. That has changed. Deflation in condo prices—a widespread phenomenon—has unit values falling 15 to 35 percent.

Sales, compared with last year, have plummeted—50 percent in Dallas-Fort Worth, Atlanta and Seattle; 78 percent in San Antonio and Houston. Lomas & Nettleton Company, a Dallas-based mortgage banker, says nationwide condo starts will fall more than 30 percent this year, to 130,000.

There are some bright spots. Luxury downtown condos are doing well. De-



Steven Guttman heads a REIT that buys dilapidated shopping centers, renovates them and then leases to top tenants.

tion of older apartments for rental use. Not only will we have thrown the baby out with the bathwater, we will be carting the bathtub off to the scrapyard. We will have destroyed both production and the ability to produce."

Commercial investment

Today's commercial investors are willing to sustain lower initial yields or even negative cash flows in anticipation of attractive returns by the end of a 5-, 10- or even 15-year holding period.

There is no dearth of investment opportunities. The dollar volume for nonresidential construction in the United States is expected to rise 13.4 percent to \$67.9 billion this year.

San Jose, Calif., will have the most industrial construction: \$460 million in new plants, according to a survey by the Chicago Title Insurance Company. Office construction will be heaviest in Los Angeles (\$900 million), and Chicago will have the most alterations of existing plants and buildings (\$820 million).

Investor confidence in downtown development continues to grow, says the Real Estate Research Corporation. This is a startling change from the trends of the 1950s, 1960s and 1970s, when the movement of popu-

lation, employment and investment was to suburbia. Even more striking has been recent investment and development activity in major frost belt cities like Indianapolis, Milwaukee and Cleveland.

Of all the major commercial land uses—offices, retail, industrial, hotels—investors remain most bullish on office construction, even though a study released by the Center for Real Estate Development at the Massachusetts In-

stitute of Technology says the present national office vacancy rate is 17 percent. In some major markets, office rents have plummeted by as much as 25 percent from peak asking prices in 1982. Tenants who sign 10-year leases regularly expect up to two years of free rent up front.

Real Estate Research Corporation's Lewis Bolan explains some investors' strategy: "If money is available, and at a price that developers and investors can live with, then office building will continue. You only have to look at Houston, with an office vacancy rate of 21.8 percent, to have a perfect example of this principle. It's wildly overbuilt, but there is still construction going on because it has great future potential."

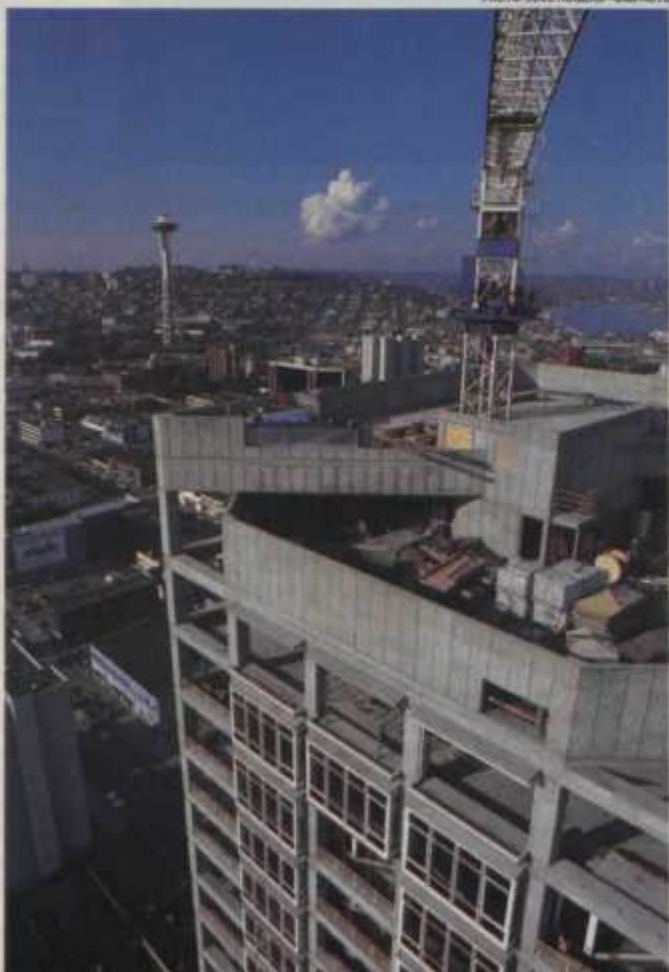
Other investors, however, are being more cautious. "The typical investor is not looking at office buildings unless they are full and have triple-A tenants on the lease," says James Baker, president of Jim Baker Realty in Portland, Ore.

So developers are doing their utmost to make their buildings stand out. They are adding such amenities as jogging tracks, health clubs, structured parking, hotels, restaurants, even medical facilities and resident doctors.

Retail projects have investor backing once again. The space glut has been fully absorbed, and investors are again interested in shopping centers. Retail developments are being rented with consumer price index escalators or percentage leases that give owners a share of sales increases. Investors are therefore more willing to buy at initial lower yields than for other land uses.

Some retailing trends: development of smaller shopping centers, which are making more efficient use of space; rapid growth of chains catering to the do-it-yourself; and specialty shopping centers—the theme or festival tourist-oriented mall, like Baltimore's Harbor Place, and the downtown traditional mall, like New Orleans' Canal Place.

PHOTO: JOEL ROGERS—UNPHOTO



Condos like this one in Seattle are still going up, but interest in them is lower because of falling sales, low values.

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Miniwarehouses—offering personal storage space—are safe investments, says broker F. Alden Murray.

For the individual, miniwarehousing is an effective investment venture, according to F. Alden Murray, a commercial investment specialist and president of Alden, Inc., in Bethesda, Md. Easy and inexpensive to construct, these warehouses are assemblages of cubicles where personal or business possessions can be stored.

Hotel investment opportunities are mixed because of overbuilding, especially in central cities, around airports and in suburban areas. "A number of new hotels and motels at all price levels seem destined to operate with low occupancies and room rates and therefore offer marginal or negative returns," says a Real Estate Research Corporation report. The exceptions appear to be independent luxury hotels such as the Coconut Grove in Miami, whose occupancy rates are outpacing the industry as a whole.

What effect could the proposed Treasury tax changes have on current commercial real estate investment activities? Plenty, according to a Price Waterhouse study done for the non-profit National Realty Committee, which follows public policy issues affecting commercial real estate. "The cost of office and retail space could significantly increase over time," the report says.

J. McDonald Williams, National Realty Committee chairman, who is managing partner of Texas-based Trammell Crow Company, the nation's largest real estate development firm, warns of the negative impact: dramatically higher rents for businesses and individuals; considerably less investment in commercial real estate by individuals (they own almost 40 percent now); lower market values of real estate properties; and distortion of the nation's future real

estate market. If market conditions prevent rent increases from covering the withdrawn tax advantages, he says, investor returns will plunge—along with property values.

A report by the national accounting firm of Seidman & Seidman/BDO says the Treasury proposals are not so drastic. "Granted, changes in depreciation, indexing for inflation, elimination of

what is fair and what makes this country tick. It is investment. Capital accumulation makes America grow because it creates jobs. If Congress starts fooling around and penalizing people who want to invest capital, that money is going to go into gold or silver and become lost, static. I would hope that in its reform, Congress takes those factors into consideration." NO

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Finding the Children

Business people back a national effort to locate missing youngsters.



Business ingenuity and resources are vital in the effort to find missing children, says National Center Director Jay Howell. Already, companies are flocking to help.

BUSINESS PEOPLE across America are rolling up their sleeves and putting some real economic muscle behind a national campaign to find missing children.

As many as 50,000 children are snatched away from their parents each year. Many more are abducted by estranged parents. An even greater number run away. Child disappearances are a national epidemic.

To fight it, dairies, grocery bag manufacturers, trucking firms, newspapers, television stations, newsletters and magazines are disseminating pictures of lost children. Trailway Lines, Inc., sponsors "operation safe home," giving runaways a free ride home. Bekins Van Lines Company is printing brochures intended to help parents better understand the reasons why children leave home.

Jay Howell, executive director of the National Center for Missing and Exploited Children, a clearinghouse in Washington, says children do not have the clout to reform laws and procedures that in many cases do not give them the protection they need.

"The business community has the power to guarantee passage of these laws," he says.

Funded by Congress with the bless-

ing of the Reagan administration, the center has a budget that barely covers the administrative costs of operating the clearinghouse. It has identified numerous goals that can only be met by voluntarism.

State laws, says Howell, a former prosecutor in Florida, form a patchwork quilt of outdated and inappropriate methods for dealing with abused and kidnapped children. The center wants to make legislators aware of more enlightened codes that could speed recovery of children and more forcefully prosecute those who prey on them.

Local law enforcement is also woefully unequal to the task of dealing with sensitive and critical handling of children caught in the criminal justice system, Howell says.

To Learn More

If you want to get involved in the National Child Watch Campaign, contact the National Center for Missing and Exploited Children, 1835 K Street, N.W., Suite 700, Washington, D.C. 20006, (202) 634-9821; or the National Child Safety Council, P.O. Box 1368, Jackson, Mich. 49204, (800) 222-1464.

Educating parents and teachers in proven methods of keeping children from running away and teaching their children to avoid situations that could be dangerous to them is an expensive proposition that calls for the kinds of creative skills business has, says Howell.

"We'd like to have videotapes for police to teach them how to interview children who have been abused," he says. "Often parents don't know how to talk to their children. We need materials for them, too."

Howell would like to see videotapes made available to schools. Actors like Henry Winkler, Bill Cosby and Ricky Schroeder are committed to making such films, but production costs are high.

"We want a partnership with the business community. So far, we haven't scratched the surface of the problem," Howell says. "Businesses can help in so many ways."

H.R. Wilkinson, president of the National Child Safety Council, which has recruited hundreds of businesses in the effort, says the "National Child Watch Campaign," kicked off this spring at the White House, should be a clear message to potential abductors that "WE ARE WATCHING."



Mitchell D. Owens
From: Menlo Park, Calif.
Date Missing: 2/3/83.
Hair: Black. Eyes: Brown.
Date of Birth: 11/21/78.



Cherrie Ann Mahan
From: Pittsburgh.
Date Missing: 2/22/85.
Hair: Brown. Eyes: Hazel.
Date of Birth: 8/14/76.



Clark "Toshiro" Handa
From: Fairfield, Calif.
Date Missing: 8/23/84.
Hair: Black. Eyes: Black.
Date of Birth: 12/5/80.



Pamela Mayfield
From: Houston.
Date Missing: 1/10/85.
Hair: Black. Eyes: Black.
Date of Birth: 7/10/79.



Michael Mayfield
From: Houston.
Date Missing: 1/10/85.
Hair: Black. Eyes: Black.
Date of Birth: 6/6/78.



Sharon Bald Eagle
From: Eagle Butte, S.D.
Date Missing: 9/17/84.
Hair: Black. Eyes: Black.
Date of Birth: 5/27/72.



Christy Luna
From: Greenacre, Fla.
Date Missing: 5/27/84.
Hair: Brown. Eyes: Hazel.
Date of Birth: 4/7/76.



Luke Treadway
From: Portland, Ore.
Date Missing: 5/23/84.
Hair: Dark Blond. Eyes: Brown.
Date of Birth: 4/24/74.



Tammy Belanger
From: Exeter, N.H.
Date Missing: 11/13/84.
Hair: Brown. Eyes: Brown.
Date of Birth: 2/24/76.

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Have Health, Will Travel

By Gary M. Kaplan

A LONG WITH that satisfying signed contract, the business traveler, particularly if he travels to certain countries, may bring home something much less desirable: a bug.

Polio, yellow fever and other less insidious but still debilitating diseases are possibilities that become more likely if the traveler wanders off the beaten path.

All of these nasty souvenirs can be avoided with some advance planning.

"When business travelers move out of the 'safe' areas of big cities and major hotels, they put themselves at significantly greater risk of picking up infectious diseases," says Dr. David Parenti, director of the George Washington University Medical Center travelers' clinic in Washington.

Established four years ago, the clinic counsels patients on travel health, specifically those headed for developing countries. It, and similar clinics in many major cities where medical universities are located, fills a gap in medical service.

Quite often, Dr. Parenti reports, private doctors do not have the time or inclination to keep up with health conditions abroad. Travelers' clinics get weekly updates from the Center for Disease Control in Atlanta and the World Health Organization and provide this timely information to their patients.

When a clinic physician like Parenti meets a patient, he obtains a complete medical and vaccination history as well as travel plans. An analysis indicates a patient's likelihood of contracting an infectious disease and determines which vaccinations will be prescribed.

If, for instance, a patient has not had immunization for cholera and plans to travel extensively in rural areas of a country where the disease is common, he will be vaccinated.

Vaccinations for yellow fever and cholera are required for admittance to some countries. Yellow fever is a problem in parts of Africa and Central

America. Cholera is prevalent in parts of Africa and Asia. Other vaccines, for tetanus, typhoid fever and polio, are recommended by the travelers' clinic, depending on the patient's medical history and travel plans. Prophylactic drugs will be prescribed if travel occurs in malarial areas.

Once an individual is in a country where such diseases are common—and especially when traveling in rural areas—precautions in eating and drinking should be taken, Parenti says. Only

taken. (Tetracycline, once widely prescribed for intestinal difficulties, now is seldom used because many disease-causing bacteria are resistant to it.) Symptoms lasting longer than a few days require medical attention.

At times, the most enjoyable pursuits can turn against a luckless traveler. Pleasant freshwater ponds and lakes, inviting a relaxing swim or lazy soak, may harbor danger. An infestation called schistosomiasis, found in some Caribbean islands and parts of South America, Africa and the Middle East, is carried by snails.

Insects are another hazard. Travelers may protect themselves against malaria-carrying mosquitoes by using prophylactic drugs and avoiding activity at night when the mosquitoes are most active.

The onset of some infectious diseases may take weeks or even months after a traveler returns home. Their connection to a trip may be missed by both the traveler and the physician, who probably has seldom encountered tropical diseases. With symptoms including fever, abdominal pain and weight loss—common to many maladies—diseases picked up on a trip may be mistreated as something far less insidious.

Because each person's medical history and travel plans are unique, a consultation at a travelers' clinic or with a private physician knowledgeable in tropical diseases is wise, says Parenti. By keeping vaccinations updated and exercising caution within endemic countries, travelers stand a better chance of staying healthy during their trips.

More information on world diseases can be obtained from the International Association for Medical Assistance to Travellers, a nonprofit, donation-supported foundation that provides risk and immunization charts, traveler's clinical records and world climate charts, and other services to members (there is no charge to join, though donations are encouraged). The U.S. address of IAMAT is 736 Center Street, Lewiston, N.Y., (716) 754-4883.



cooked foods and fruits peeled by the traveler should be eaten. Water should be boiled or purification tablets added before drinking. These steps reduce the likelihood of getting serious infectious diseases, as well as the short-term debilitation of travelers' diarrhea.

Parenti recommends an old standby, Pepto-Bismol, as both a preventive and a therapeutic measure for minor intestinal problems. If symptoms continue, an antibiotic such as Lomotil should be

GARY M. KAPLAN is a San Francisco-based free-lance writer.

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Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

1 Trade Tax Breaks For Rate Cuts?

Congress is expected to take up this year proposals to simplify the federal tax system by eliminating a wide range of deductions and credits. That move would be offset by a sharp cut in tax rates. Tax reformers say those steps would make the system fairer, as well as simpler. The other side holds that many deductions and credits encourage actions that benefit society and deserve to be retained. Should Congress abolish tax preferences to achieve lower rates?

2 Extend Duration Of Jobless Pay?

Workers who lose their jobs can now collect unemployment compensation for 26 weeks. If the regional jobless rate is at a certain level, they can collect for another 13. A bill pending in Congress would add 17 more weeks, for a total of 56, and ease eligibility for all 30 extra payments. Sponsors say workers in high unemployment areas need such protection. Opponents cite evidence that jobless pay deters searches for new jobs. Should jobless pay be extended?

3 Repeal Income Tax Indexing?

Under indexing procedures that take effect this year, personal income tax brackets and exemptions will be adjusted automatically to offset effects of inflation. Supporters say that this approach not only is fair to the taxpayer, but that it also deprives the government of revenues from inflationary policies. Opponents argue that sacrificing tax indexing would be a small price to pay to help eliminate deficits that threaten the economy. Should tax indexing be repealed?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

Results of The April Poll

Here is how readers responded to the questions asked in April:

1. Should the Service Contract Act be repealed? Yes: 97%; No: 2%; Undecided: 1%.

2. Is the United States in danger of losing its lead in high technology? Yes: 54%; No: 25.6%; Undecided: 20.4%.

3. Does television news cover business fairly? Yes: 15.4%; No: 72%; Undecided: 12.6%.



Recordkeeping Returns Go to Hill

NATION'S BUSINESS poll returns showing overwhelming reader opposition to new recordkeeping rules for business use of vehicles were delivered to Rep. Hal Daub (R-Nebr.), left, a leading foe of the regulations, by the publication's managing editor, Henry Altman. Business opposition was a major factor in the congressional decision to repeal the law.

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When John Weinberger (inset, top) and a colleague began developing the Flame Seedless grape in the 1950s, they did not know it would take decades before growers like John Kovacevich (inset, bottom) could produce it in quantity.

WHENEVER Sally Weinberger looked at the table grapes at foodstore produce counters in Fresno, Calif., during the 1950s, she was unhappy with what she saw. Her husband, John, was a plant breeder at a U.S. Agriculture Department research station in Fresno. Why, she kept asking, could he not develop a good-tasting, bright-colored, seedless table grape?

Why, indeed, Weinberger asked himself. In many years of plant breeding work for the Agriculture Department—he had come to Fresno from another research station in Georgia—he had perfected dozens of better-tasting, more attractive fruits.

The Flame Seedless grape he came up with far surpassed what his wife had asked for. Thanks to experimental work by pioneer growers who perfected techniques for growing it, and to some business people's clever marketing strategies, the Flame has come from nowhere to become perhaps the hottest agricultural product of the 1980s.

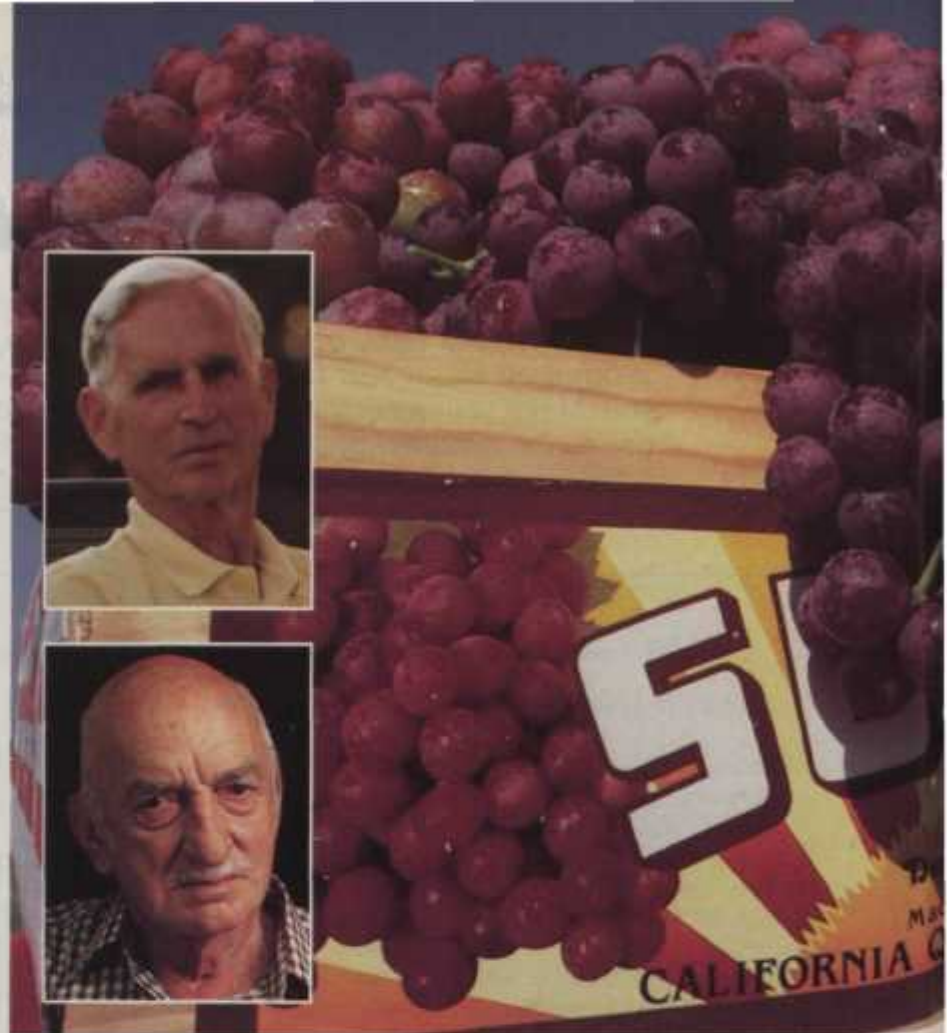
California's Table Grape Commission says the Flame is a key reason why table grapes have suddenly jumped from 10th to fifth place in the public's fruit preferences—behind apples, bananas, oranges and grapefruit. Certainly the numbers are hardly small potatoes: Agriculture experts predict that Flame sales, \$86 million retail last year, will double this year and in each of the next several years.

Historically, qualities other than taste, color, texture and seedlessness have determined which grapes California farmers grew and sold. The common wisdom used to be that the best table grape varieties were those that would not bruise or shrivel or squash while being trucked as much as 3,000 miles to market.

Under this restriction farmers abandoned good-eating but delicate European table varieties like the Chasselas doré or the Black Hamburg. So when Sally Weinberger went shopping, she found a narrow range of bland-tasting table grapes—two types of seeded red grapes; a seeded jet-black grape; and the Thompson Seedless, "the Chevy of grapes," which was planted as a bulk wine grape, a raisin grape and, incidentally, as a table grape.

Under her prompting, her husband decided that distasteful little seeds and unattractive colors constituted the

RICHARD STEVEN STREET is a freelance writer who specializes in California agricultural topics.



A Grape Of Another Color

The Flame Seedless may be a marketing bonanza for a troubled industry.

By Richard Steven Street

main obstacles to expanding table grape consumption. Since 75 percent of table grape purchases are spontaneous, and based largely on eye appeal, Weinberger reasoned that he might open an entirely new market if he could produce a table grape that was appealing to the eye and did not confront the consumer with the dilemma of whether to spit or swallow seeds.

In the late 1950s, Weinberger and Frank Harmon, also of the Fresno research station, began a project designed to create just such a grape. They estimated it would take about 10 years.

Actually, it took a good bit longer. Fruit hybrid work is unpredictable. Nine out of 10 experimental crosses prove useless and are discarded.

Weinberger, 74 and now retired, recalls thousands of crosses made in his 40-year career.

"Hybrids have a nasty habit of looking good in the experimental one-year stage," he says. "But the next year, in a vineyard and fertilized, they die for some unknown reason."

"Or sometimes you'll start out with a beautiful-looking, great-tasting grape, and the next year those vines produce



PHOTOS: RICHARD STEVEN STRASS

growers complaining that they had the wrong grapes, grapes that had seeds in them."

It was another five years before growers perfected the farming techniques required to minimize seed problems that appeared in first and second year crops grown on rootstocks they were using. Fortunately, by the third year, seed traces disappeared. But initial publicity on the problem delayed extensive plantings and soured some growers on Flames.

Once the seed-trace problem cleared up, another 10 years was required before the new vine could even begin to approach large-scale commercial production. For one, nurseries needed time to stockpile enough rootings to sustain massive plantings. For another, the vines did not reach acceptable production levels until three to five years after planting.

Part of the delay in introducing the Flame originated in the extensive research and experimentation required for developing the best practices for growing it.

Owners of some of the

most productive Flame vineyards, like Kovacevich and Sons, Arvin, Calif., fruit growers and shippers, say Flames are not easy to grow. John Kovacevich, 75, named the Flame Seedless in 1973 (an honor accorded him by the Agriculture Department for his work in developing the first commercial crop of Flames). He says he had to learn to manipulate his Flames in the field the same way wine-grape growers manage their wine in their wineries.

"There's no shortcut," he says of his 15 years of experimentation with Flames. "You change this, change that. You've got to realize how the vine is performing, interpret the performance, see what it's trying to tell you."

What exactly does Kovacevich do to his vines? How does he turn berries normally the size of dimes into grapes the size of small eggs?

"Everyone has their own approaches," says Kovacevich. "It's all trial and error. Miscalculate somewhere, and you get clusters that shatter, or you get waterberries [discolored, tasteless, watery grapes]. In 1983 we thought we had everything down pat. At thinning time our Flames looked like diamonds. But something went wrong. Our crop was off 35 percent."

Knowing how to grow the Flame was one thing. Getting consumers to want to buy the grape was another. Obvious-

ly, that required marketing. Sun World, Inc., a Bakersfield, Calif., multinational company marketing everything from asparagus to zucchini, accepted the challenge.

In 1979, while Kovacevich was perfecting the practices required for growing Flames, Sun World executives Domenick "Cookie" Bianco and Howard Marguleas saw some of Kovacevich's experimental vineyards. They set out to make Sun World the largest grower of Flames.

Planting thousands of acres of Flames in the Coachella Valley of Southern California, Sun World succeeded in producing the grapes in late May, earliest Flames on the market. For a month or so, Sun World had the only Flames in North America.

Sun World's advertising campaign has followed its production levels. Until 1983, output remained relatively low, averaging around 3,000 boxes of Coachella Valley Flames per year. Consequently, the initial effort stressed sending complimentary grapes to food editors, plus advertising in trade papers.

But last year, when production of mature vines zoomed above 300,000 boxes, Sun World geared up for a full-scale, multimillion-dollar advertising blitz. Enlisting the services of a public relations firm, Sun World renamed the grape—somewhat redundantly—the "Red" Flame Seedless. (Other growers have stuck with the Flame Seedless name chosen by Kovacevich.) Next Sun World saturated the United States with full-page, color newspaper and magazine advertisements.

The Flame also provides a ripe entrepreneurial opportunity for others, as any survey of the grape-growing districts elsewhere will show. From Lodi in central California south to Mexico, a massive planting and grafting of Flames is under way.

SOME FARMERS say Flames are overplanted. They say thousands of acres of vines are now in the young, unbearing stage, and when those vines mature, the market will be swamped. Furthermore, advances in plant breeding will allow scientists to develop new table grape varieties in one third the time formerly required. Within 10 years, experts predict, you will see a wide variety of black, cream, brick red, yellow and lime green seedless grapes, each with a distinct taste.

In the meantime, experts say, Flames should gobble larger and larger chunks of the market. Their popularity, by spurring growers to produce more of them, should make them even more popular. The reason? Prices. Last year Flames sold in stores for as much as \$1.79 a pound. This year they are expected to drop as low as 69 cents. **Q**

fruit that tastes like green bell peppers."

The cross Weinberger and Harmon thought most likely to succeed was a complex hybrid involving five different varieties. Developed in 1961, after they evaluated 100,000 different seedlings, this vine produced its first grapes in 1964. Ruby-colored, sweet, juicy, crunchy like an apple and seedless, the grapes tasted and looked like nothing under the sun.

Had the new grape been the product of a private research project, it undoubtedly would have been patented and made available to growers at the standard penny per vine rate. But because it was "invented" by a federal government agency, it became public property.

In the mid-1960s, when enough duplicate vines had been propagated, Weinberger gave cuttings to several commercial growers, who began grafting the cuttings onto existing rows of old vines. After the first small shipments of grapes received rave reviews, the new variety was released to the public in 1973.

"That's when the problems began," says Don Luvisi, 48, University of California Extension Service farm adviser for Kern County, who helped introduce Flames into the county. "We started getting calls in 1975 and 1976 from

The New Office: A People Office

Future workplaces will be more than functional; they will be comforting.

By Hope Daniels

WHEN ASKED TO define the key element in trends for the office of tomorrow, top business interior designers from New York to Los Angeles, from Dallas to Chicago, all seem to agree: It is people.

"People will be the driving force in the future, just as data processing equipment has been the driving force in the office of today," according to Bob Bockheim, group products manager of Haworth, Inc., a Holland, Mich., manufacturer of open-office furnishings that incorporate movable panels and components into individual work stations.

"People are demanding that the places where they work provide more than just a desk and a cubicle and a weekly paycheck," says interior designer Sue McDonough, of Duffy, Inc., in New York.

"People are forcing interior designers to take a closer look at how they work, and prompting changes that will allow for flow and interaction, for comfort and privacy," says designer Stephen Jacobs, of R.P. Segerstrom, Inc., in Los Angeles.

"People, especially in this technological age, when computers are changing work processes and relationships, need workplaces that are comfortable—even comforting—as well as functional," says the annual report of Herman Miller, one of the top office systems and equipment designers and manufacturers in the country.

And although designers are still apt

HOPE DANIELS is editor of *Ladycom* magazine.



Merck & Company's "office of the future" is designed entirely around computers. The color scheme uses pastels to soften the look of computer equipment.

to see their primary function as getting inside the corporate psyche and translating a company's image into concrete office space dimensions, they are doing it with an eye toward accommodating the very lifeblood of the sophisticated, technologically oriented work environment: the people who work there.

What is more, they are doing it with the blessings of business executives who are relying more and more heavily on employees' opinions both in new interior office design and renovation of existing space.

There is evidence that paying attention to employees' office environment pays off for businesses that do it. A study by the New York research firm of Frost & Sullivan says that if a company invests the equivalent of one year of a worker's wage in equipment, furniture and surroundings, office productivity will rise anywhere from 50 to 300 percent. And the more automation, say the experts, the more this will be true.

"Design experts are looking through three windows—people, tasks and technology—to predict the look of the office of tomorrow," says Haworth's Bockheim.

"Twenty years ago, the business office was set up like a production line. That's no longer true. Now the team concept better applies. Twenty years ago people were comfortable with separate tasks. Now they all share a great wealth of information. As a result, people today expect a lot more than just a desk and a cubicle they can call their own," he says.

"They're looking for better seating,

better lighting, a better work environment and a more comfortable personal work space overall.

"And these demands have been translated by companies like ours into open space plans for office interiors that incorporate shared work areas with private space, yet allow for total flexibility when work needs change and office space must be rearranged."

FOUNDED IN 1948 by G.W. Haworth as Modern Products, Bockheim's company became a major factor in making and marketing floor-to-ceiling movable partitions during the 1950s and '60s. In the middle '70s the company began developing open plan office furnishings systems and decided to redirect its efforts exclusively to that market. The company saw a need for work stations that could be changed quickly and for high quality furniture that was ergonomically designed—that would align comfortably with the curves of the body and accommodate the movements of a person at work.

In 1976 it introduced a full line of these systems, known as UniGroup, and gained recognition for industry firsts in prewired office panel systems and furniture to be used in electronic work stations.

According to Bockheim, Haworth's open office systems allow workers to see one another through curved glass panels so that their areas are accessible yet private, and they can conduct confidential discussions and small meetings without interruption.

John Dziuba, senior vice president



Haworth, Inc., of Holland, Mich., specializes in designing flexible, open office systems, with special concern for employees' needs for a comfortable environment.

and director of interior and graphic design services at Perkins & Will, a residential and commercial design firm based in Chicago, says an important aspect in designing the office of the future is to be able to gauge accurately what a building has to offer in terms of computer smarts and telecommunications capabilities.

"Pretty soon we won't be looking at paper any more," Dziuba predicts, "but at storage files for tapes and discs and electronics equipment. Companies, rather than simply opting for elegant, sophisticated design, will be looking at investing in good people to run the electronic offices that keep their businesses thriving. And that translates into comfortable work environments that will keep a staff happy and productive."

Dziuba says that typical work stations in office interiors even today are not as sterile as they used to be: "A lot warmer things are going on in terms of patterns, colors, textures. And with the introduction of computers to the workplace, more comfortable seating and complementary lighting have also been worked into the office landscape."

He sees a trend toward patterns and prints, more extensive use of design elements like etched glass and transparent glass blocks, even a greater use of art nouveau. "And granite, yes," he says, "but forget the concrete."

Interior design for businesses usually means one of two things: working up a design for completely new office space or taking existing space and remodeling it to meet a company's present and future needs.

Each presents its own set of challenges.

The offices of the Federal Home Loan Mortgage Corporation in Sherman Oaks, Calif., show striking use of interior design for a new facility.

Designed by Stephen Jacobs, vice president-design with R.P. Segerstrom, Inc., in Los Angeles, it capitalizes on the high tech exterior of the building, with its lean, spare look. That look has been brought into the staff and executive space within, to advance the "company on the move" image the corporation sought to achieve.

About 18,000 square feet of space on the lower level house staff work spaces, designed around open work stations. A glass and steel sculptural floating staircase connects the lower level to the upper level executive area, which contains private executive offices, conference rooms and an open area for training functions.

In terms of design aesthetics, says Jacobs, the offices are high tech, incorporating high gloss, white ceramic tile topped by a burgundy suspended metal ceiling. Interspersed throughout the

work areas are pieces of art by young California artists.

The fifth floor executive level contains high-quality furnishings, including leather seating and granite-topped tables, and a continuation of the gray-white-burgundy color scheme used on the floor below.

Lighting, important because of the extensive use of computers in the work areas, is mostly indirect, and plantings are grouped in clusters throughout the facility, either at floor level or at the tops of file banks, to add a further softening effect.

According to Jacobs, the image created with the interior design for Federal Home Loan was his firm's interpretation of where the company wanted to be.

"Federal Home Loan was relocating to a more favorable business environment, and the design was coordinated to enhance that idea," Jacobs says. "In effect, we set the pace, and they responded receptively."

ONE OF THE most difficult aspects of redesigning already existing office space is that people have to be shifted around during the renovation. But as Sue McDonough, of Duffy, Inc., in New York, discovered while working with executives, human resources personnel and others at Merck & Company, Inc., in Rahway, N.J., it helps immeasurably to have the employees involved in the renovation from the start.

The space McDonough was asked to redesign was on the sixth floor of Building 33, space the pharmaceutical company now calls its "office of the future." Completely computerized, the office is occupied by 75 doctors and other professionals.

Essential in the redesign was placing an electronic communications center, and the interior space had to be completely gutted to make room for it.

"The communications center now dominates the center of the work area," McDonough explains, "with glass all around, so it's the first thing you see when you enter the area. Six to eight work stations have been installed within the glassed-in area for the computer technicians, while the remaining space is worked around open screen systems to provide a sense of space."

Since computer equipment tends to be harsh in appearance, McDonough says, pastel tones were chosen for the interior to soften the effect.

The redesign also incorporates a lot of textural surfaces on chairs and divid-

er panels, and both vertical and horizontal screens separate individual work areas: higher ones for those needing more privacy, lower ones to facilitate communication in secretarial work stations.

Who set the tone for the Merck redesign?

The first step was to canvass Merck executives in order to get some idea of what image, or corporate culture, they wanted to project, says McDonough.

"We feel it's very important to go with what the client wants," she says, "and we take our cues from there."

"In this case, there was lots of preliminary work with the people who eventually occupied the building. Merck executives gave nearly everybody some kind of choice in what was going to go into their space, from showing them videotapes of computer equipment to videotapes of office furniture systems, and their preferences were very much a part of the final selections."

Which points up what is perhaps one of the biggest changes, according to McDonough, in thinking with regard to office design: Executives are willing to get workers' opinions about the places in which they will work.

"It's what I call the holistic approach to office planning," McDonough says, "involving three key elements: the technical, or the computer people; the physical, or the interior designers; and the behavioral, or the human resources folks."

"That gives you a very nice mix, with often splendid results."

Just where the business office is headed in terms of form, function and interior design really depends a lot on whom you ask, according to Gary Lowe, associate and project manager for Daroff Design, Inc., in Philadelphia.

"Interior office design is much more individualistic, much more subjective than it was 10 years ago," Lowe says. "Color ranges are freer, looser. We're seeing greater use of dusty colors, intense primaries and a palette of grays."

"Once it was almost considered immoral to be frivolous. But that's no longer true. And 'decoration,' even as it applies to office design, is no longer a dirty word."

One designer who has quite effectively mixed both old and new forms in modern office design with excellent results is Joe Minton, of the design firm of Minton-Corley in Fort Worth, Tex.

And nowhere is his penchant for unusual combinations more evident than in his design for the offices of P.D. Sams, an oil company in Midland, Tex.

Going on the assumption that most

against a long wall of windows to open up the room to the exterior view, and there is a prefab fireplace behind an 18th century mantel at one end. The room is furnished in traditional style with both Chippendale and needlepoint tapestry wing chairs. Colors over all are bottle green, dark blue and soft golden tan (to pick up the color of the paneling).

There is a feeling of warmth and coziness, and, according to Minton, "you almost feel you've gone back 200 years. People actually sit around the fireplace and talk business."

The remaining office space takes its theme from the business of P.D. Sams: oil.

"I wanted to go with the theme of oil as a fossil fuel," Minton says, "so I designed the public areas and staff work spaces in an earth motif."

The conference room is dominated by a massive cedar slab table resting on two cedar pedestals. Floors are pieces of travertine marble laid like flagstones. Fossils and all sizes of rock crystals and geodes line the shelves, while plants and small indoor trees complete the decor.

Offbeat? Certainly.

Eye-catching? You bet.

Would such an interior work for anybody? Probably not. But Minton knew what his client wanted, worked with him to define a work space that defined the man and his interests, and coupled his private office with the dramatic public space in a way that, for P.D. Sams, worked.

"A lot depends on the client," Minton says, "and on what's appropriate for him. I particularly like using antiques because of the warmth they project."

"Functional office furnishings are best used with computers and modern business equipment, of course, but even in a thoroughly modern office antiques can be used as works of art, as accent pieces to add warmth and interest."

Beginning with the client allows designers to create both efficiency and comfort. The simple truth seems to be that, at work, a setting that makes workers comfortable also helps them work better, and good design therefore becomes good business.



P.D. Sams, an oil company, has offices designed to reflect its business. The chief executive's suite (top) is traditional, and the conference room uses natural wood and stone.

top executives spend twice as much waking time in their offices as in their homes, Minton set out to create for company head Perkins D. Sams the kind of executive suite that not only reflected Sams' personality but provided him with an exceedingly comfortable work environment as well.

Minton designed the suite around several walls of 18th century pine paneling he discovered during an antiques buying trip to London, placing it at the far left leg of the triangular office space to allow for more privacy.

The paneling makes an L-shape



What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
BUDGET/APPROPRIATIONS	Congress will soon begin its annual task of adopting the 13 regular appropriations bills. To keep our economy growing, Congress must show fiscal responsibility by passing appropriations that will lower the deficit.	Members of the House and Senate: Keep your promise to the American people and cut the federal deficit. Excessive spending will slow down the economic expansion.
TAXATION OF EMPLOYEE BENEFITS	In the quest for new revenues, the Treasury has proposed a tax reform package that terminates many tax-favored employee benefits. Most of the Treasury's proposals would result in higher employee taxable income.	Members of the House and Senate: Oppose taxation of employee benefits. Current tax incentives encourage the private sector to provide these benefits, and they do so efficiently and effectively.
SUPERFUND	Reauthorization of the toxic waste cleanup program, which expires September 30, is a major environmental issue facing Congress. Controversy is over the amount of funding required to safely and efficiently clean up abandoned hazardous waste sites. Business will be required to pay a share of the costs.	Members of the House and Senate: Reauthorization should be based on the best available information on ways to improve the program and expedite cleanup. Support a national program to clean up abandoned and inactive hazardous waste sites at reasonable funding levels.
COMPARABLE WORTH	Advocates of comparable worth will push this year for passage of legislation that would set a value for each job based on a subjective point system. Implementation would cost employers hundreds of billions of dollars.	Members of the House and Senate: Oppose government-mandated comparable worth legislation that would interfere with free market systems and be extraordinarily costly to implement nationwide.
TAX REFORM	Much debate in 1985 will center on achieving greater fairness and simplicity in our tax code. Numerous tax plans have been introduced; business needs to be aware of these various proposals.	Members of the House and Senate: All the various tax simplification plans must be studied carefully. Do not pass a tax increase under the guise of tax reform.
GROVE CITY DECISION	Many businesses would be subjected to new affirmative action rules and regulations if broad-based legislation is passed to overturn the Supreme Court decision in <i>Grove City College v. Bell</i> .	Members of the House and Senate: Oppose any legislation that would unnecessarily expand civil rights regulations.
YOUTH DIFFERENTIAL	Business would be allowed to hire teen-agers aged 16-19 at new reduced wages for summer work if Congress adopts legislation supported by the administration. Enactment would help lead to lower unemployment levels.	Members of the House and Senate: Support youth incentives that encourage creation of job opportunities while benefiting employers and employees. Give teen-agers a better chance to find a summer job by allowing businesses to hire them at a slightly reduced wage.

Who Are The Masters ?

Partisan political maneuvering and efforts to protect special-interest spending are obscuring the real significance of the current congressional debate over fiscal policy.

President Reagan focused on that significance when he told the annual meeting of the U.S. Chamber of Commerce:

"The budget this year is more than a matter of balance sheets. It will decide whether spending will make us all government servants or whether the American people can once again master the governmental process.

"In a fundamental sense, what is at stake is nothing less than democracy itself."

The 1985 budget debate, he is telling the American people, transcends the usual fighting over specific spending levels and goes to the question of whether the wishes of the American people or the narrow self-interest of pressure groups will prevail.

Grass-roots Americans want the budget put on the road to balance with a deficit reduction plan geared to spending cuts, not tax increases.

The key issue before Congress is whether the democratic process is going to work, and whether the American people, rather than special interests, are masters of the governmental process.

A High Content Of Common Sense

If federal government actions were graded on the basis of common sense, the Equal Access to Justice Act of 1980 would score very high.

Under that law, individuals and smaller businesses who won legal disputes initiated by the federal government could collect attorneys' fees if the government's case was not "substantially justified."

The act served as a forceful warning that

agencies should not move without the strongest possible case.

Congress approved extension of the act last year.

While supporting the basic concept of the act, President Reagan vetoed the extension measure because of disagreement with some changes proposed in the implementation procedures. The act is no longer in effect.

The President commented in his veto message: "I am firmly committed to the policies underlying the Equal Access to Justice Act. . . . Where the federal government has taken a position in litigation that is not substantially justified. . . I believe it proper for the government to reimburse [those expenses]."

Both Congress and the President support the concept of the equal access law. A pending bill to reinstate the act meets the President's objections to the 1984 measure in a way that does not undermine its goals.

There is no reason why the Equal Access to Justice Act should not be back in place in the very near future.

Solid Gains From Creativity

Pioneer psychologist Carl Jung observed that "the debt we owe to the play of the imagination is incalculable."

His comment has particular application to the world of enterprise and its enormous contributions to the progress of mankind.

Those contributions originated in the imaginations of creative individuals who took time out to ponder whether something could be done better, more efficiently, more economically.

Considering what creativity and imagination have done to improve living standards for all, it is encouraging to know that it still flourishes throughout American enterprise. (See cover story, page 18.)

Companies that foster creativity are making a solid contribution to the continuing health of the national economy. ■



Small Wonder

At last, *pocket-size* radar protection.
New PASSPORT can go with you anywhere.

Quite simply, PASSPORT is the smallest superheterodyne radar detector ever made—only $\frac{3}{4}$ " tall, $2\frac{3}{4}$ " wide, and $4\frac{1}{2}$ " long. It fits your pocket as easily as a cassette tape.

SMD Technology

This miniaturization is possible only with SMDs (Surface Mounted Devices), micro-electronics common in satellites but unprecedented in radar detectors. When radar is out there, the superheterodyne circuitry in PASSPORT will find it—over hills, around curves, anywhere. But that's just part of the story.

Detailed Report

Just as important is the way PASSPORT provides a precise indication of radar range. Simply turn PASSPORT on and set the volume level. At radar contact, the alert lamp lights and the variable-pulse audio begins a slow warning: "beep" for X band radar, "brap" for K band. Simultaneously a bar graph of

Hewlett-Packard LEDs shows signal strength. A photocell even adjusts the alert brightness to the light level in your car.

**"In a word,
the Passport
is a winner."**

Car and Driver, March, 1985

Behind the Wheel

As you get closer, the pulse quickens and the bar graph lengthens. And if you should want to defeat the audible warning during a long radar encounter, a special switch allows you to "mute" the audio, yet leave PASSPORT fully armed for the next encounter. You get the complete radar picture.

Upwardly Mobile

You can take PASSPORT anywhere: on an airplane to another city, or to work for trips in the company car. Just install on dashtop or visor, then plug into your lighter. PASSPORT keeps such a low profile, it can be on duty without anyone

noticing. And PASSPORT comes complete with a visor clip, windshield mount, straight cord, coiled cord—even a leather travel case. And we back PASSPORT with a full one year limited warranty.

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Marlboro

A close-up, high-contrast photograph of a man's face, focusing on his eyes, nose, and mustache. He is wearing a white cowboy hat with a dark band. A lit cigarette is held in his mouth. The lighting is dramatic, with deep shadows and bright highlights, emphasizing the textures of his skin and the hat. The background is a solid, warm brown color.

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Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

16 mg "tar," 1.0 mg nicotine av. per cigarette, FTC Report Feb. '85